

PATENT DEVELOPMENTS FOR IT PRACTITIONERS

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A. Patentability, Validity, and Procurement of Patents

1. Statutory Subject Matter – Computer Software and Genes

Alice Corp. Pty Ltd v. CLS Bank Int'l, 134 S.Ct. 2347 (2014), *affirming* 717 F.3d 1269 (Fed. Cir. 2013). Alice Corp. is the owner of four patents that cover a computerized trading platform for exchanging obligations in which a trusted third party settles obligations between a first and second party to eliminate settlement risk, which is the risk that only one party's obligation will be paid. Three types of patent claims were at issue: (1) method claims; (2) computer-readable media claims; and (3) system claims. The district court held that all the claims were not patent-eligible under 35 U.S.C. § 101 because they fell within the "abstract ideas" exception to patentability. A panel of the Federal Circuit initially reversed, holding that the claims were directed to practical applications of the invention falling within the categories of patent eligible subject matter. The panel stated that it must be "manifestly evident that a claim is directed to a patent ineligible abstract idea" before it will be ruled invalid. The Federal Circuit later granted a petition for rehearing en banc.

The *en banc* court (decided by 10 judges who were eligible to hear the case) reversed the panel decision and issued a total of 6 separate opinions, plus a seventh "additional views" passage by Chief Judge Rader. In a per curiam opinion, a majority of the judges agreed that the method and computer-readable media claims were invalid, but disagreed as to the reasoning. An equally divided (5-member) court affirmed the district court's decision that the system claims were also invalid. Judge Lourie (joined by 4 others) concluded that all claims were invalid because they "preempt a fundamental concept" – the "idea" of the invention is third-party mediation, and clever claim drafting cannot overcome that preemption. Judge Rader, writing for a 4-member minority, agreed that the method and computer-readable media claims were invalid because they recited an abstract concept, but would have upheld the patentability of the system claims, pointing out that a machine cannot be an "abstract idea." Judge Moore, writing for 4 judges, also pointed out that the system claims should not be considered an abstract idea. Judge Newman would have found all of the claims patent-eligible. Judges Linn and O'Malley would also have found all claims to be patent-eligible because the parties agreed that all claims required the use of a computer. Judge Rader's "additional views" lamented the lack of agreement on the issue.

The U.S. Supreme Court affirmed, concluding that all of the claims were not eligible for a patent. The Court began by reviewing the "framework" it established in *Mayo Collaborative Services v. Prometheus Laboratories*, 132 S.Ct 1289 (2012) for distinguishing patents that claim abstract ideas from those that claim patent-eligible subject matter. First, the Court determines whether the claims at issue are directed to one of those patent-ineligible concepts. If the claims are directed to a patent-ineligible concept, the Court then asks what else in the claims constitutes an

“inventive concept” – i.e., an elements 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.”

In this case, the Court determined that the claims were drawn to the abstract idea of intermediated settlement. Analogizing the claims in this case to those at issue in *Bilski v. Kappos*, 561 U.S. 593 (2010), which involved a series of steps for hedging risk, the Court concluded that the claims here were directed to a method of exchanging financial obligations between two parties using a third-party intermediary to mitigate settlement risk. “On their face, the claims before us are drawn to the concept of intermediated settlement, i.e., the use of a third party to mitigate settlement risk.” The Court concluded that the use of a third-party intermediary “is also a building block of the modern economy.” (citing treatises).

Applying the second step of the *Mayo* analysis, the Court examined the claims to determine whether they contained any “inventive concept” sufficient to “transform” the claimed abstract idea into a patent-eligible application. The Court explained that the claim must be more than a “drafting effort designed to monopolize the abstract idea.” The Court also noted that “the introduction of a computer into the claims does not alter the analysis at *Mayo* step two.” Citing its earlier decisions in *Benson* and *Flook*, the Court explained that limiting the use of the idea to a particular technological environment could not circumvent the prohibition on abstract ideas. “The mere recitation of a generic computer cannot transform a patent-ineligible abstract idea into a patent-eligible invention.” As to the specific system claims that recited specific hardware elements, the Court concluded that a “data processing system,” a “communications controller,” and a “data storage unit,” were “purely functional and generic.” According to the Court, “nearly every computer will include a ‘communications controller’ and ‘data storage unit.’ As a result, none of the hardware recited by the system claims offered a “meaningful limitation” beyond generally linking the use of the method to a particular technological environment.

The Court seemingly distinguished inventions that “improve the functioning of the computer itself” and inventions that “effect an improvement in any other technology or technical field” from the holding of this case. These two factors might very well be the new “safe harbors” in claiming inventions that can otherwise be characterized as an “abstract idea.”

In re Roslin Institute, 750 F.3d 1333 (Fed. Cir. 2014). The Federal Circuit affirmed the U.S. PTO’s determination that claims directed to a cloned animal – “Dolly the Sheep” – were unpatentable subject matter. Relying on the recent U.S. Supreme Court’s decision in *Association for Molecular Pathology v. Myriad Genetics*, 133 S.Ct. 2107 (2013), which held that naturally-occurring organisms such as isolated genes are not patentable, the court explained that “Dolly herself is an exact genetic replica of another sheep and does not possess ‘markedly different characteristics from any [farm animals] found in nature.’” According to the court, “Dolly’s genetic identity to her donor parent renders her unpatentable.”

Digitech Image Tech., LLC v. Electronics for Imaging, Inc. 758 F.3d 1344 (Fed. Cir. 2014). Digitech, which owns U.S. Patent No. 6,128,415 directed to a “device profile” and a method for creating a device profile in a digital image processing system, sued 32 defendants for patent infringement. The district court granted summary judgment of invalidity of the patent in favor of the defendants, and Digitech appealed.

The structure of the claims was as follows:

1. A *device profile* for describing properties of a device in a digital image reproduction system . . . comprising:

first data for describing a device dependent transformation of color information content of the image . . . and

second data for describing a device dependent transformation of spatial information content of the image

10. A method of generating a device profile that describes properties of a device in a digital image reproduction system . . . comprising:

generating first data for describing a device dependent transformation of color information content of the image . . .

generating second data for describing a device dependent transformation of spatial information content of the image . . . and

combining said first and second data into the device profile.

The district court ruled that the “device profile” claims were directed merely to a collection of numerical data lacking any physical component or physical manifestation, and thus it did not fall within one of the four statutory categories of patent-eligible subject matter under 35 U.S.C. § 101. The court also ruled that the method claims were invalid because they were directed to the abstract idea of organizing data through mathematical correlations.

The Federal Circuit affirmed. As to the “device profile” claims, the Federal Circuit explained that “For all categories except process claims, the eligible subject matter must exist in some physical or tangible form” and that to qualify as a machine, the claimed invention must be “a concrete thing, consisting of parts, or of certain devices and combination of devices” (quoting *Burr v. Duryee*, 68 U.S. 531 (1863)). Because the “device profile” claims did not include anything tangible, they were not eligible for patent protection and thus the claims were invalid.

As to the method claims, the Federal Circuit cited the Supreme Court’s recent

decision in *Alice Corp. v. CLS Bank Int'l*, 134 S.Ct. 2347 (2014) (see above) for the proposition that the claims merely recited an abstract idea because they describe a process for organizing information through mathematical correlations and are not tied to a specific structure or machine. According to the court, “The above claim recites a process of taking two data sets and combining them into a single data set, the device profile.” Quoting from the Supreme Court’s 1972 decision in *Parker v. Flook*, the Federal Circuit concluded that “If a claim is directed essentially to a method of calculating, using a mathematical formula, even if the solution is for a specific purpose, the claimed method is nonstatutory.”

Buysafe, Inc. v. Google, Inc., ___ F.3d ___, 2014 WL 4337771 (Fed. Cir. Sept. 3, 2014). The Federal Circuit affirmed a district court’s ruling on a motion to dismiss on the pleadings a patent directed to a method and machine-readable medium for guaranteeing a party’s performance of its online transaction. Relying on *Alice*, the Federal Circuit first found that the claims “are squarely about creating a contractual relationship – a ‘transaction performance guaranty’ that is beyond question of ancient lineage.” It then concluded that the claims’ “invocation of computers adds no inventive concept. The computer functionality is generic – indeed, quite limited: a computer receives a request for a guarantee and transmits an offer of guarantee in return.”

Note: Since the Supreme Court’s *Alice* decision, there have been at least 11 district court decisions that have invalidated patents based on the *Alice* reasoning. Examples include *Loyalty Conversion Systems Corp. v. American Airlines*, No. 2:13-cv-655 (E.D. Tex. Sept. 3, 2014) (patents to loyalty reward program ruled unpatentable); *Walker Digital v. Google, Inc.*, No. 11-318 (D. Del. Sept. 3, 2014) (patents directed to employment search system ruled unpatentable); and *Tuxis Technologies, LLC v. Amazon.com, Inc.*, No. 13-1771 (D. Del. Sept. 3, 2014) (patent directed to method of “upselling” over electronic network declared invalid).

Key Take-Away: The PTO and courts are increasingly rejecting or invalidating patents directed to various types of inventions that can be characterized as an “abstract idea,” even if the claims recite specific computer components. Inventions in certain fields, such as financial services, electronic commerce, marketing/sales programs, loyalty programs, and others may be at higher risk of vulnerability.

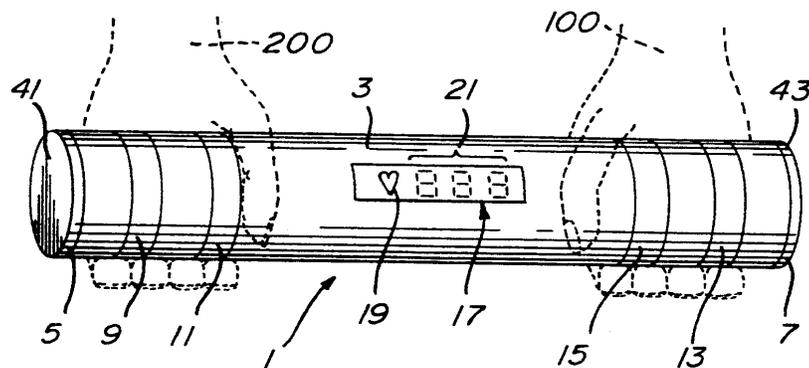
2. Uncorrected Patent Claim Is Unenforceable Until Corrected

H-W Technology, L.C. v. Overstock.com, Inc., 758 F.3d 1329 (Fed. Cir. 2014). H-W Technology sued Overstock.com for infringing a patent relating to a device and method for performing contextual searches on an IP phone. The asserted method claim as approved by the patent examiner included a specific limitation relating to the user completing a transaction with a merchant without generating a voice call. As issued, however, the printed patent omitted this limitation. H-W had asserted the uncorrected patent in its lawsuit, and the district court concluded that the claim was invalid because it did not accurately reflect what was allowed by the patent

examiner. The Federal Circuit affirmed the district court’s refusal to judicially correct the patent, because the error was not “evident from the face of the patent.” Although the error was clear based on the prosecution history, that fact did not permit the court to correct the patent. The Federal Circuit also ruled that the district court properly refused to consider the later-filed certificate of correction, because of prior precedent concluding that such certificates are effective only for causes of action arising after the certificate was issued. Because H-W filed this lawsuit before the certificate of correction was issued, the patent was held to be unenforceable before its correction.

3. Indefiniteness of Patent Claims

Nautilus, Inc. v. Biosig Instruments, Inc., 134 S.Ct. 2120 (2014). Biosig’s patent relates to a heart-rate monitor used with exercise equipment in a way that filters out electrical interference, allowing for more accurate measurements. The claim recites a cylindrical bar that a user grips with both hands, each hand contacting a pair of electrodes and a display device, wherein the pairs of electrodes are “mounted . . . in spaced relationship with each other.”



Biosig sued Nautilus for infringing the patent. While the suit was pending, Nautilus convinced the U.S. PTO to reexamine the patent based on prior art. During the reexamination proceedings, Biosig submitted a declaration by the inventor stating that the patent sufficiently informed a person skill in the art how to configure the electrodes so as to produce equal EMG signals from the left and right hands. Although the spacing of the electrodes could not be standardized across all types of exercise machines, the inventor explained that a person skilled in the art could use “trial and error” to determine the correct equalization. Thereafter, the PTO issued a reexamination certificate confirming the patentability of the claims.

Biosig asserted that the “spaced relationship” limitation referred to the distance between the two electrodes. Nautilus argued that the “spaced relationship” required that the distance be greater than the width of each electrode. The district court interpreted the term to mean that there is a “defined relationship” between the two

electrodes on each side of the bar, without any particular width requirement. Nautilus then moved for summary judgment, arguing that the term “spaced relationship” was indefinite because it failed to adequately inform those skilled in the art as to the boundaries of the claims. The district court granted the motion, concluding that the term failed to inform anyone what precisely the space should be, or even supply any parameters for determining the appropriate spacing.

The Federal Circuit, applying its case law imposing a high bar to proving indefiniteness of a patent claim – requiring that a claim be “insolubly ambiguous” in order for it to be invalid – reversed. According to the Federal Circuit, the patent discerned “certain inherent parameters” that allowed a person to understand the metes and bounds of “spaced relationship.” That required that the distance be no greater than the width of a user’s hand, and no less than an “infinitesimally small” distance.

The U.S. Supreme Court vacated and remanded for further proceedings. Justice Ginsburg’s opinion began by explaining that patent claims are directed to those skilled in the relevant art. Patent claims must be precise enough to apprise the public of what is still open to them, otherwise a “zone of uncertainty” would exist that would deter others from knowing their risk of infringement. The Court announced that the correct test for definiteness requires that “a patent’s claims, viewed in light of the specification and prosecution history, inform those skilled in the art about the scope of the invention with reasonable certainty.” It rejected the Federal Circuit’s “insolubly ambiguous” test for measuring claim definiteness and remanded for reconsideration under the correct standard.

Triton Tech of Texas, LLC v. Nintendo of America, 753 F.3d 1375 (Fed. Cir. 2014). Triton Tech sued Nintendo, alleging that the Wii Remote used in combination with a related accessory infringed a patent directed to an input device for a computer. The district court ruled that the patent claims were invalid because the recited “integrator means associated with said input device for integrating said acceleration signals over time” had no corresponding algorithm disclosed in the specification. Triton Tech argued that the structure corresponding to the “integrator means” was a conventional microprocessor, and that the term “numerical integration” was sufficient disclosure of the algorithm because numerical integration was well-known to those of skill in the art. The Federal Circuit, however, affirmed the district court’s finding that “numerical integration” was not an algorithm but was instead an entire class of different possible algorithms used to perform integration. Accordingly, the patent claims were affirmed as being invalid for indefiniteness.

In re Packard, 751 F.3d 1307 (Fed. Cir. 2014). “This case raises an important question: what standard for indefiniteness should the U.S. Patent and Trademark Office (‘USPTO’) apply to pre-issuance claims?” The Federal Circuit answered its own question with the following standard: “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 court rejected the patent applicant’s argument that the definiteness of the claims should be measured under the Federal Circuit’s “insolubly ambiguous” standard for definiteness that has been applied in district court litigation. In this case, the court affirmed the USPTO’s rejection of claims drawn to a coin change holder, noting that the patent examiner had set forth a variety of ways in which he found the claims imprecise or confusing, sometimes not even understandable, considering them in light of the written description.

Key Take-Away: Both the courts and the PTO are paying closer attention to clarity in patent claims, and rebuking attempts to assert vaguely-worded patents. Reliance on means-plus-function claiming techniques remains increasingly risky.

4. Reissue Application Cannot Be Used to Modify Terminal Disclaimer

In re Dinsmore, 757 F.3d 1343 (Fed. Cir. 2014). The Federal Circuit upheld the PTO’s determination that a patent applicant cannot use a reissue proceeding to modify a terminal disclaimer. The terminal disclaimer had been filed against another patent that was not commonly owned. According to the Federal Circuit, “applicants are ultimately seeking simply to revise a choice they made, not to remedy the result of a mistaken belief. Theirs is not an error remediable under the reissue statute.”

5. Written Description

Scriptpro, LLC v. Innovation Assocs, Inc., ___ F.3d ___, 2014 WL 3844192 (Fed. Cir. August 6, 2014). A district court ruled that a patent covering a machine for dispensing prescriptions was invalid because the patent specification did not adequately describe the invention as claimed. The district court’s ruling was based on the fact that the specification described the invention as containing sensors, whereas the claims covered a machine that did not require any sensors. The Federal Circuit reversed, concluding that although the specification contained several references to “the invention” as “broadly comprises” several components including sensors, such language was not sufficiently absolute to restrict the invention to the use of sensors. According to the Federal Circuit, “We conclude that the ‘broadly includes’/‘broadly comprises’ phrases are less than a clear statement of limitation that a skilled artisan, if being reasonable, would have to read as requiring the slot sensors at issue.” Other parts of the specification referred to functionality of the sensors as providing optional, not necessary, features to the claimed invention. The court also noted that the patent was filed with original claims that did not require sensors, suggesting that the invention was not intended to be so limited.

6. Reexamination Results Trump Litigation Validity Determination

Fresenius USA, Inc. v. Baxter International, Inc., 721 F.3d 1330 (Fed. Cir. 2013),

rehearing denied, 733 F.3d 1369 (Fed. Cir. 2013). Fresenius brought a declaratory judgment action against Baxter, alleging that its patent was invalid and not infringed.

A district court granted summary judgment in favor of Baxter, concluding that its patent was valid. Meanwhile, in a parallel proceeding, the U.S. PTO found the identical claims to be invalid and that decision was affirmed on appeal. Then, the district court entered a final judgment enforcing the patent claims, and then the Federal Circuit affirmed the PTO's invalidity finding. The Federal Circuit held that the PTO's invalidity ruling trumped the district court's validity ruling, because the district court's ruling was not "final" while it was on appeal to the Federal Circuit. Judge Newman dissented, alleging that the decision allowed an administrative agency decision to trump a federal court decision. Four judges dissented from the denial of the petition for rehearing en banc.

ePlus, Inc. v. Lawson Software, Inc., 760 F.3d 1350 (Fed. Cir. 2014). ePlus sued Lawson for infringing a patent relating to a method for using electronic databases to search for products. A jury concluded that Lawson infringed the claims, and the district court entered a permanent injunction against Lawson, enjoining Lawson from making or selling any products that infringed the patent. On appeal, the Federal Circuit overturned some but not all of the infringement rulings, leaving one infringement verdict in place, and remanding to the district court to modify the injunction. The district court also found that Lawson's redesigned products were not colorably different from its earlier products found to infringe, and found Lawson to be in contempt for violating that injunction. The court ordered Lawson to pay \$18 million for the violation, plus \$62,362 daily until it could show compliance with the injunction. Lawson appealed to the Federal Circuit. Meanwhile while Lawson's appeals were pending, the Federal Circuit affirmed the PTO's reexamination decision that invalidated the only claim at issue in the case. Following issuance of the Federal Circuit's mandate, the PTO canceled the claims in April 2014.

The Federal Circuit held, based on an 1851 Supreme Court decision not involving patents, that the district court's injunction must be set aside because the PTO had canceled the patent claim on which it was based. In other words, the PTO's cancellation of the patent claim at issue trumped the injunction issued by the district court. The Federal Circuit also set aside the district court's award of civil contempt damages. Judge O'Malley agreed that the injunction must be set aside, but dissented from the court's decision to set aside the civil contempt damages based on the later-vacated injunction.

Key Take-Away: Validity battles over patents are shifting to the U.S. PTO, which has increased power and authority to invalidate patents under the AIA. If a defendant can get patent litigation stayed pending outcome of proceedings at the PTO, it is likely that a patent invalidated by the PTO will result in nullification of the infringement litigation.

7. **Ability to Force or Stop Inter Partes Reviews at the PTO**

St. Jude Medical, Cardiology Division, Inc. v. Volcano Corp., 749 F.3d 1373 (Fed. Cir. 2014). St. Jude petitioned the PTO to institute an *inter partes* review of a patent. The PTO denied the petition, and St. Jude appealed the denial to the Federal Circuit. In an issue of first impression, the Federal Circuit concluded that 35 U.S.C. § 314(d), which states that “The determination by the Director whether to institute an *inter partes* review under this section shall be final and nonappealable,” precluded St. Jude from appealing the non-institution decision. The court further stated that “That declaration [in the statute] may well preclude all review by any route, which we need not decide.”

In re Dominion Dealer Solutions, LLC, 749 F.3d 1379 (Fed. Cir. 2014). Dominion Dealer petitioned the PTO to institute *inter partes* review of various patents owned by Autoalert. After the PTO denied the petitions, Dominion Dealer petitioned the Federal Circuit for a writ of mandamus directing the PTO to grant the petitions. The Federal Circuit concluded that the patent statute precludes appeal of a non-institution decision to the Federal Circuit, and therefore Dominion could not establish a “clear and indisputable” right to relief by way of writ of mandamus.

In re The Proctor & Gamble Co., 749 F.3d 1376 (Fed. Cir. 2014). Proctor & Gamble owns 3 patents for whitening teeth, and Clio USA petitioned the PTO to institute *inter partes* review of the patents. The PTO granted the petitions, and P&G petitioned the Federal Circuit to issue a writ of mandamus directing the PTO to withdraw the orders instituting *inter partes* review on the grounds that Clio’s earlier declaratory judgment actions on the patents should have barred the institution of *inter partes* review under 35 U.S.C. § 315(a)(1). The Federal Circuit denied the petition on the grounds that the statute precludes an appeal from the decision to institute *inter partes* review, and “P&G’s mandamus petition is not a proper vehicle for challenging the institution of *inter partes* review.”

B. Interpretation and Infringement of Patents

1. Claim Construction

Lighting Ballast Control LLC v. Philips Electronics North America Corp., 744 F.3d 1272 (Fed. Cir. 2014) (en banc). The Federal Circuit issued an en banc decision affirming that claim interpretation is an issue that is to be reviewed *de novo* on appeal, rejecting arguments that its decision in *Cybor Corp. v. FAS Technologies, Inc.*, 138 F.3d 1448 (Fed. Cir. 1998) be overturned. Four judges dissented. Note: The U.S. Supreme Court on March 31, 2014 granted certiorari in *Teva Pharmaceuticals USA v. Sandoz Inc.*, Supreme Court No. 13-854, which raises the same issue.

In re Giannelli, 739 F.3d 1375 (Fed. Cir. 2014). In an appeal from the U.S. PTO’s Patent Trial and Appeal Board (PTAB) which affirmed a patent examiner’s rejection of claims directed to a rowing machine as obvious over a chest press exercise machine. At issue was the meaning of the claim phrase “first handle portion *adapted*

to be moved from a first position to a second position by a pulling force . . . in a rowing motion.” The PTAB interpreted this language to be merely an intended use for the claimed machine, and held that the chest press machine could be used in the manner claimed. The Federal Circuit reversed, explaining that “the phrase ‘adapted to’ is frequently used to mean ‘made to,’ ‘designed to,’ or ‘configured to’ Although the phrase can also mean ‘capable of’ or ‘suitable for,’ here the written description makes clear that ‘adapted to’ . . . has a narrower meaning, viz., that the claimed machine is designed or constructed to be used as a rowing machine whereby a pulling force is exerted on the handles.” The Federal Circuit concluded that “there is no question that the ‘447 patent does not have handles that are adapted to be pulled in a rowing motion.” **Note:** This case may be helpful to rebut recent U.S. PTO patent examiners and PTAB decisions that dismiss “configured to” or “adapted to” language in patent claims as having “no patentable weight.”

2. Disclaimer of Claim Scope

Golden Bridge Technology, Inc. v. Apple Inc., 758 F.3 1362 (Fed. Cir. 2014). Golden Bridge sued Apple for infringing patents relating to a communication system. Golden Bridge had previously asserted one of the patents against another defendant, and the parties in that earlier litigation had stipulated to the meaning of certain claim terminology (the meaning of the word “preamble”). While an appeal from that earlier litigation was pending, Golden Bridge had also filed a continuation application and defended a reexamination of the asserted patent in the U.S. PTO. In both the continuation application and the reexamination, Golden Bridge submitted an Information Disclosure Statement (IDS) that included the claim construction order from the earlier litigation including the stipulated definition of the claim term “preamble.” In this lawsuit, the district court relied on the claim term definition contained in the IDS and granted summary judgment in favor of Apple. The Federal Circuit affirmed, concluding that Golden Bridge’s submissions “during prosecution of its stipulated construction for the term preamble constitute disclaimer. Although we generally construed terms according to their plain and ordinary meanings to one of ordinary skill in the art, we depart from that meaning where there is disclaimer.” According to the court, “it would have been natural for both the PTO and the public to rely upon the stipulation in determining the scope of the claimed invention.”

3. Induced Infringement Requires Evidence of Direct Infringement

Limelight Networks, Inc. v. Akamai Technologies, 134 S.Ct. 2111 (2014). M.I.T. owns a patent that claims a method of delivering electronic data using a content delivery network. Akamai, the exclusive licensee of the patent, contracts with website owners to improve content delivery by designating certain components of the web site to be stored on Akamai’s servers in a process known as “tagging.” By serving the content from different servers, Akamai is able to increase the speed with which Internet users access the content on the websites. Limelight networks also carries out several steps of the patented method, but instead of tagging those components of the websites that are stored on its servers as claimed, Limelight

requires its customers to do their own “tagging.”

In 2006, Akamai sued Limelight for patent infringement, and a jury awarded \$40 million in damages. After the jury verdict, the Federal Circuit decided another case, *Muniauction, Inc. v. Thomson Corp.*, 532 F.3d 1318 (Fed. Cir. 2008), which held that a party could only be liable for infringement if a single entity performed all of the claimed method steps, or if a single defendant “exercises control or direction” over the entire process such that every step is attributable to the controlling party. Because the defendant in *Muniauction* did not exercise control or direction over its customers’ performance of the steps, no infringement could be found. In light of *Muniauction*, the district court granted Limelight’s motion to set aside the verdict on the basis that no direct infringement existed, and because Limelight did not control or direct its customer’s “tagging” operation, no infringement could be found.

The Federal Circuit initially affirmed, concluding that a defendant that does not itself perform all of the steps of a patented method can be eligible for direct infringement only “when there is an agency relationship between the parties who perform the method steps or when one party is contractually obligated to the other to perform the steps.” Because Limelight did not have control over its customers, the customer’s tagging operations could not be attributed to Limelight.

The Federal Circuit reheard the *Limelight* case en banc and reversed. The en banc court did not revisit its direct infringement case law, but instead concluded that “the evidence could support a judgment in Akamai’s favor on a theory of induced infringement” under 35 U.S.C. § 271(b). This was true, according to the Federal Circuit, because liability for induced infringement arises when a defendant carries out some steps constituting a method patent and encourages others to carry out the remaining steps, even if no one would be liable as a direct infringer.

The Supreme Court reversed and remanded, beginning with the proposition that there can be no liability for induced infringement unless there is direct infringement. Justice Alito blasted the Federal Circuit, stating that “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 Court explained that “where there has been no direct infringement, there can be no inducement of infringement under § 271(b).” The Court rejected the analogy that tort law imposes liability on a defendant who harms another through a third party, even if that third party would not himself be liable. “Because Limelight did not undertake all steps of the ‘703 patent and cannot otherwise be held responsible for all those steps, respondents’ rights have not been violated.” The Court also rejected an analogy to the federal aiding and abetting statute. The Court did, however, acknowledge the danger in permitting a would-be infringer to evade liability by dividing performance of a method claim with another whom the defendant neither directs nor controls, but noted that such an anomaly “would result from the Federal Circuit’s interpretation of § 271(a) in *Muniauction*,” suggesting that the holding in that case was questionable. The Court

also rejected Akamai’s suggestion that the Supreme Court review the Federal Circuit’s earlier *Muniauction* decision, stating that “we decline to do so today.” The case was remanded to the Federal Circuit with the caveat that “the Federal Circuit will have the opportunity to revisit the § 271(a) question if it so chooses.”

Key Take-Away: The importance of careful claim drafting, particularly when drafting method claims involving computer technology, cannot be overemphasized. Claims that involve participation by more than one person or corporate entity may be difficult to enforce in court, leaving patent owners with little or no recourse.

4. Prosecution History Estoppel Applies to Design Patents

Pacific Coast Marine Windshields Ltd v. Malibu Boats, LLC, 739 F.3d 694 (Fed. Cir. 2014). In an issue of first impression, the Federal Circuit held that the doctrine of prosecution history estoppel applies to design patents. In this case, the patent applicant filed a design patent application claiming an ornamental design for a marine windshield with a frame, a tapered corner post with vent holes and without vent holes, and with a hatch and without a hatch. The patent examiner issued a restriction requirement, identifying 5 different designs. The applicant selected the first group, corresponding to a windshield having four vent holes and a hatch and canceled the figures corresponding to the non-elected group. After the patent issued, the patent owner sued Malibu Boats for infringement based on an accused windshield having only three vent holes. The Federal Circuit affirmed the district court’s grant of summary judgment of non-infringement, concluding that cancellation of figures and striking references to alternative embodiments constituted a surrender of claim scope. It rejected the argument that estoppel was limited to amendments made to avoid prior art.

C. Enforcement of Patents

1. Standards-Essential Patents

Apple Inc. v. Motorola, Inc., 757 F.3d 1286 (Fed. Cir. 2014). In a patent infringement suit brought by Apple against Motorola, Motorola counterclaimed for infringement of a patents that was deemed essential to a standard. The district court granted Apple’s motion for summary judgment that Motorola was not entitled to an injunction on the standard-essential patent, because Motorola had agreed to license it on fair, reasonable, and nondiscriminatory (“FRAND”) terms. The Federal Circuit stated that “to the extent the district court applied a *per se* rule that injunctions are unavailable for SEPs [standard-essential patents], it erred. While Motorola’s FRAND commitments are certainly criteria relevant to its entitlement to an injunction, we see no reason to create, as some *amici* urge, a separate rule or analytical framework for addressing injunctions for FRAND-committed patents.” Instead, the court explained that the framework set forth by the Supreme Court in its 2006 *eBay v. MercExchange* case should govern whether an injunction is issued. For example, the Federal Circuit noted that an injunction might be warranted where an

infringer refuses a FRAND royalty or unreasonably delays negotiations to the same effect. In this case, however, the Federal Circuit affirmed the summary judgment that no injunction should issue, because Motorola had failed to establish irreparable harm. “Considering the large number of industry participants that are already using the system claimed in the ‘878 patent, including competitors, Motorola has not provided any evidence that adding one more user would create such harm.”

Commonwealth Scientific and Industrial Research Organization v. Cisco Systems, Inc., 2014 WL 3805817 (E.D. Tex. July 23, 2014). Commonwealth Scientific (CSIRO) owns a patent that is essential to practicing a standard-essential invention relating to Wi-Fi. The IEEE adopted the standard, and Cisco agreed to a bench trial on the amount of damages it must pay for using the standard. The district court rejected CSIRO’s damages model as flawed, concluding that its \$30 million theory was based on an expert who had wide variability in estimated profit premiums attributable to the patented technology. The court also found that the expert’s “drastic final apportionment is arbitrary, capricious, and supported by no sound economic methodology.” The court similarly rejected Cisco’s total damages theory of \$1.1 million, because it was based primarily on the prices of chips that implemented various features of the patented invention, rather than the combination of techniques including other components. Relying on the so-called “hypothetical negotiation” between the parties, the district court ultimately focused on an informal offer of \$0.90 per product that Cisco had made to CSIRO even though the offer was made years after the so-called hypothetical negotiation would have taken place. Based on this offer, the district court concluded that a range of \$0.90 to \$1.90 was appropriate (the upper bound set by CSIRO’s “voluntary” licensing program to others), and ultimately awarded total damages in the amount of \$16 million.

Microsoft Corp. v. Motorola, Inc., 2013 WL 2111217 (W.D. Wash. Apr. 25, 2013). Microsoft sued Motorola for breach of contract, alleging that Motorola had an obligation to license patents to Microsoft at a reasonable and non-discriminatory (“RAND”) rate, and that Motorola breached its RAND obligations by sending two offer letters. The district court held a bench trial in November 2012 with the aim of determining a RAND licensing rate and RAND royalty range for Motorola’s patents.

Both Microsoft and Motorola were members of the IEEE and ITU organizations, both of which create standards for various types of technology. The standards at issue involve WiFi (802.11) and video coding technology (H.264). Motorola owned patents that were “essential” to both standards (meaning that to be compliant with the standards, one would necessarily have to use patented technology), and Motorola had committed to license them on RAND terms. Motorola sent two letters to Microsoft, offering to license each set of patents for a royalty rate of 2.25% of the price of any end product that incorporate the patented technology. The total cost to Microsoft would have been \$100 million to \$125 million per year. Microsoft then sued for breach of contract, and in a series of orders, the district court found that Microsoft could sue as a third-party beneficiary, and that Motorola’s commitments required that initial offers by Motorola must be made in good faith.

The court started by noting that both standards organizations required members to disclose a potentially essential patent and to either (1) agree to license the patents for free; or (2) license the patents on RAND terms; or else (3) the approved standard would not include the patented provisions. The court noted that certain industry standards can require hundreds or thousands of essential patents, and certain devices such as PCs may be required to comply with as many as 90 different standards. Motorola had submitted documents to the European Telecommunication Standards Institute (ETSI) in which it pointed out that in order to comply with RAND, compensation must reflect the patent owner's proportion of all essential patents, such that judges should look at the overall cumulative royalty for a given standard, not just offers made by one patent owner.

Microsoft and Motorola submitted competing theories regarding how a RAND range or rate should be calculated. Motorola owned 16 patents that are essential to the H.264 standard, but the court concluded that most of Microsoft's products made only minor use of the technology. Motorola owned 24 patents that it asserted are essential to the 802.11 standard, and Motorola agreed that only Microsoft's XBOX used its 802.11 standards-essential patents (SEPs).

Motorola's proposed license fee of 2.25% was based on expert testimony that relied on earlier settlements with different companies for the same patents. The court discounted this testimony because the earlier settlements were made in the course of settling patent litigation, and in one case, included other patents not at issue in this case. The court noted concerns about "patent stacking" in view of the relatively minor contribution that Motorola's patents made to the standard.

Microsoft's proposed approach focused on two patent pools, one for the H.264 standard and the other for the 802.11 standard. In such pools, each participant received a share of the total royalties based on the number of its patents included in the pool. The first 100,000 units were royalty-free; for units between 100,000 and 5 million, the royalty was \$0.20 per unit; and for volumes above 5 million, the royalty rate was \$0.10 per unit, with a cap of \$6.5 million. The court noted evidence tending to show that royalty rates in patent pools are generally lower than rates negotiated independently. The court also concluded that patent pools did not consider the importance of individual patents to the standard. Consequently, the court found that a patent pool rate did not per se constitute a RAND rate. Nevertheless, in view of the success in licensing the patent pool, the court found that it was a "strong indicator" of a RAND royalty rate.

Starting with the H.264 pool, the court considered the effect of adding Motorola's H.264 patents to the pool, and concluded (based on expert testimony) that Microsoft would end up paying 0.185 cents per unit, but that Motorola would also obtain value in the form of having full access to other patents included in the pool. Evidence from Microsoft showed that it received about twice as much in value from the pool as it paid in, so the court concluded a similar amount for Motorola would apply. This

meant that Motorola would receive 0.555 cents per unit as a lower-end RAND rate. The court found no reason to increase this rate, partly because there was no evidence concerning how important to the pool Motorola's patents were. After considering anti-stacking concerns and evidence of a highest fee of \$1.50 per unit discussed during formation of the pool, the court set an upper bound of \$0.16389 per unit.

Moving to the 802.11 pool, the court started with a calculated pool value royalty of \$0.05 per unit but adjusted it to account for the fact that Motorola no longer claimed that 53 of its U.S. patents were essential to the 802.11 standard (adjusted down to 24 patents) and concluded that Motorola's royalty payments would be \$0.06114 per unit, or 6.114 cents per unit.

The court also considered other evidence based on other comparable scenarios, resulting in royalty rates of 3 to 4 cents per unit, and 0.8 to 1.6 cents per unit. **The court then concluded that "In relation to the amount Motorola seeks in this litigation -- \$6.00 - \$8.00 per Xbox unit – these three indicators are very close to one another.** The court then averaged the three royalty values and arrived at a rate of 3.471 cents per unit. The court also adopted a lower range value of 0.8 cents and an upper range value of 19.5 cents per unit.

Microsoft Corp. v. Motorola, Inc., 2013 WL 4053225 (W.D. Wash. Aug 12, 2013, 2013). Following its decision on RAND royalty rates (see decision above), Microsoft moved for summary judgment that Motorola had breached its RAND obligations by offering to license the patents at a rate of 2.25% of the cost of each unit, which was a breach of the duty of good faith and fair dealing. Microsoft also contended that Motorola's seeking of injunctive relief and the ITC frustrated the purpose of Motorola's RAND obligations. The district court denied the motion, stating that disputed issues of fact should be decided by a jury, including such questions as whether the offers were commercially reasonable.

Note1: On September 4, 2013, a jury ordered Motorola to pay Microsoft \$14.5 million for breaching its obligation to license its standard-essential patents to Microsoft on fair terms. **Note2:** The decision is currently on appeal at the 9th Circuit.

In re Innovatio IP Ventures, LLC Patent Litigation (MDL), 2013 WL 5593609 (N. D. Ill. Oct. 3, 2013). Innovatio sued numerous hotels, coffee shops, restaurants, supermarkets, and other users of Wi-Fi internet technology throughout the United States, alleging that providing Wi-Fi access for their customers infringed 23 patents owned by Innovatio. The manufacturers of the devices, including Cisco, Motorola, HP and others, filed declaratory judgment actions against Innovatio, seeking a declaration that their products do not infringe and that the patents are invalid. Innovatio then alleged that the manufacturers' devices also infringed, and the cases were consolidated into this multi-district litigation case.

The manufacturers alleged that Innovatio's patents are "essential" to the IEEE 802.11 wireless standard, and that Innovatio is therefore subject to the promises of the prior owners of the patents to license the patents on reasonable and non-discriminatory (RAND) terms. The parties agreed to waive a jury trial and allow the court to decide all RAND-related issues in a bench trial. The manufacturers alleged that all of the asserted claims were "essential" to the standard, whereas Innovatio contended that only 168 of the asserted claims are essential, but others were not.

The court started by noting the IEEE's requirement that patent owners of standard-essential patents promise to license their patents on RAND terms before the standard is adopted. Innovatio's patents were previously owned by Intermecc Technologies Corp, Norand Corp., and Broadcom, each of which had agreed with the IEEE to license any standard-essential technology covered by their patents on RAND terms. The court held that those agreements were binding on Innovatio, and that Innovatio could be held in breach of the agreement if it failed to live up to the promises. The court then reviewed the IEEE's bylaws regarding standards and "standards-essential" patents. The court also treated all the different variations of the 802.11 standard as a single standard for purposes of the lawsuit.

The court adopted the meaning of "essential patent claim" contained in the IEEE bylaws, which referred to a patent claim the use of which was necessary to create a compliant implementation of either mandatory or optional parts of the standard, when there was no commercially and technically feasible non-infringing alternative. The court put the burden on the manufacturers to prove that (1) the only commercially and technically feasible way to implement a particular mandatory or optional part of the standard was to infringe the claims; and (2) the patent claim includes technology that is explicitly required by the standard. Based on this definition, the court concluded that all of the categories of claims asserted by the manufacturers were "essential" and thereby subject to RAND licensing terms. In some cases, the court relied on the fact that non-infringing alternatives would not be commercially feasible.

Following a bench trial in September 2013, the court determined that the RAND rate to be paid to Innovatio for licensing its portfolio of 19 standard-essential patents is 9.56 cents for each Wi-Fi chip used or sold in the United States. The court looked to Judge Robart's methodology in *Microsoft v. Motorola*, 2013 WL 2111217, involving similar issues, and followed a similar procedure (essentially, a modified Georgia-Pacific factors analysis) to conduct a hypothetical negotiation between the patent owner and the manufacturers. The court discussed the well-known "royalty stacking" problem, in which certain standards can involve hundreds if not thousands of patents, making the cumulative royalty payment excessive. The court also noted that the RAND rate must be set high enough to ensure that innovators in the future have an incentive to invest in future developments.

The court rejected Innovatio's argument that the royalty base should be the product incorporating the Wi-Fi functionality, such as a laptop computer or router, as

speculative and not based on an established method of analysis; the court also found that Innovatio failed to properly apportion the value of the patented technology in the products. The court also reviewed comparable licenses and other factors before arriving at its RAND royalty rate, based in part on the manufacturers' "top-down" approach that focused on the price of a Wi-Fi chip.

Realtek Semiconductor Corp. v. LSI Corp., 2014 WL 2738226 (N.D. Cal. June 16, 2014). LSI Corp owns two patents that it states are "essential" to the 802.11 WiFi standard, and its predecessor (Agere) submitted Letters of Assurance (LOA) to the IEEE stating that it was prepared to grant licenses on a FRAND basis (fair, reasonable, and non-discriminatory). Agere contacted Realtek to offer a license under the patents at a rate of 5%, but Realtek did not respond. Years later, after LSI acquired Agere, LSI sent a letter to Realtek demanding that it cease and desist from infringing the patents. Less than a week later, LSI filed a complaint in the ITC, seeking to block Realtek products from being imported into the U.S. A month later, Realtek sent a letter to LSI, requesting that it make the patents available under FRAND license terms. LSI responded with an offer letter that applied a royalty rate to the total value of the end product rather than to the value of the components that Realtek supplied. Realtek then sued LSI, asserting that LSI breached its FRAND licensing obligations, and Realtek moved for partially summary judgment. The district court granted the motion, concluding that Agere's LOA letter to the IEEE constituted a binding contract to license their patents, and that filing an ITC action before offering a RAND license constituted a breach of that agreement.

Beginning in February 2014, the court held a jury trial to determine Realtek's breach of contract damages and the RAND rates for the two patents. The jury awarded \$3.8 million to Realtek for breaching of contract and found RAND royalty rates of 0.12% for one patent and 0.07% for the other patent. Realtek then moved for a permanent injunction enjoining LSI from further demanding royalties beyond the jury's verdict and from seeking to enforce any patents in the ITC without first offering Realtek a license. The court denied the injunction because the ITC had ruled that LSI failed to prove infringement, and thus there was no irreparable harm. The court did, however, grant Realtek's request for declaratory relief, ruling that upon Realtek's request for a license, to be in compliance with its RAND obligations, LSI must offer Realtek a license to the patents at the rates found by the jury.

2. Injunctions

Apple Inc. v. Samsung Electronics Co., 735 F.3d 1352 (Fed. Cir. Nov. 18, 2013). Apple sued Samsung for infringing various patents relating to smartphones. A jury found that various Samsung smartphones infringed six of Apple's patents (three design patents and three utility patents), and awarded Apple more than \$1 billion in damages. The patents relate generally to the ornamental appearance of the rounded phone, and various touch-screen features such as a "pinch-to-zoom" feature. After trial, Apple moved for a permanent injunction, but the district court denied the motion. On appeal, the Federal Circuit affirmed the denial of the permanent

injunction as to the design patents, agreeing with Samsung that Apple had failed to show irreparable harm from the infringement because it did not establish a sufficient “causal nexus” between the harm and Samsung’s patent infringement. Apple had failed to submit sufficient evidence that consumers were buying Samsung’s products because of the features claimed in the design patents.

As to Apple’s utility patents, however, the Federal Circuit held that the district court erroneously rejected Apple’s survey evidence showing that consumers were willing to pay a premium for the features claimed in those patents. As to the inadequacy of legal damages to compensate for infringement, the Federal Circuit agreed that Apple’s past agreements to license the patents was relevant, but faulted the district court for placing too much weight on Apple’s previous licenses, some of which were entered into in settlement of litigation. As to the public interest factor, the Federal Circuit agreed with the district court’s conclusion that an injunction would prevent the public from enjoying a wide range of non-infringing features based on “limited non-core functions.”

3. Attorney’s Fees

Octane Fitness, LLC v. ICON Health & Fitness, Inc., 134 S.Ct. 1749 (2014). Section 285 of the patent statute permits a district court to award attorney’s fees “in exceptional cases . . . to the prevailing party.” Existing Federal Circuit case law held that a case could be held “exceptional” in only two situations: (1) when there has been some material inappropriate conduct, or (2) when the litigation is both “brought in subjective bad faith” and is “objectively baseless.” In this case, ICON sued Octane for infringing several claims of a patent relating to exercise equipment. The district court granted Octane’s motion for summary judgment, concluding that the patent was not infringed. Octane moved for attorney’s fees, but the district court denied the motion because Octane did not show that the suit was “objectively baseless” or that ICON had brought it in subjective bad faith. The Federal Circuit affirmed, but the Supreme Court granted certiorari, reversed and remanded.

The Supreme Court began with reference to dictionary definitions of the word “exceptional” from the 1930s, which were in use at the time Congress enacted the 1952 Patent Act. In that context, the word meant “out of the ordinary course,” “unusual,” or “special.” “We hold, then, that an ‘exceptional’ case 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 Supreme Court rejected the Federal Circuit’s “rigid and mechanical” formulation established in *Brooks Furniture Mfg, Inc. v. Dutalier Int’l, Inc.*, 393 F.3d 1378 (Fed. Cir. 2005), noting that its standard was nearly the same as that for “sanctionable conduct” under Federal Rule of Civil Procedure Rule 11. Instead, “a

district court may award fees in the rare case in which a party's unreasonable conduct – while not necessarily independently sanctionable – is nonetheless so 'exceptional' as to justify an award of fees. Finally, "we reject the Federal Circuit's requirement that patent litigants establish their entitlement to fees under § 285 by 'clear and convincing evidence.'" Instead, such entitlement should be based on a preponderance of the evidence standard.

Highmark Inc. v. Allcare Health Mgt System, Inc., 134 S.Ct 1744 (2014). The patent statute provides that a court in exceptional cases may award reasonable attorney fees to the prevailing party. Highmark sued Allcare seeking a declaratory judgment that its patent was invalid, unenforceable, and not infringed. The district court entered a final judgment of noninfringement in favor of Highmark and the Federal Circuit affirmed. Highmark then moved for attorney fees, which the district court granted based on Allcare's pattern of "vexatious" and "deceitful" conduct throughout the litigation. Among other things, the court found that Allcare had maintained infringement claims against Highmark well after such claims had been shown by its own experts to be without merit, and asserted frivolous defenses. The Federal Circuit reversed in part, reviewing *de novo* the exceptional-case determination. Relying in part on its *Octane Fitness* decision (discussed above), the U.S. Supreme Court vacated and remanded, concluding that "an appellate court should apply an abuse-of-discretion standard in reviewing all aspects of a district court's § 285 determination."

Key Take-Away: It will be increasingly easier to get attorney's fees for meritless patent cases, which might discourage so-called "patent trolls" in the coming months and years. Time will tell how far courts are willing to go in making such awards.

4. Induced Infringement at the ITC

Suprema, Inc. v. International Trade Commission, 742 F.3d 1350 (Fed. Cir. Dec. 13, 2013), *vacated and rehearing en banc granted*, 2014 WL 3036241 (May 13, 2014). In an issue of first impression, the Federal Circuit held that the ITC may not issue an exclusion order barring importation of products that infringe only under a theory of induced infringement, where no direct infringement occurs until after importation of the articles the exclusion order would bar. In this case, the direct infringement did not occur until after Mentalix combined Suprema's products with its own software, thus making Suprema allegedly liable for induced infringement. The Federal Circuit based its decision on the language of the ITC statute (section 337), which refers to importation of "articles that . . . infringe a valid and enforceable United States patent."

5. Infringement Damages

Apple Inc. v. Motorola, Inc., 757 F.3d 1286 (Fed. Cir. 2014). Apple sued Motorola for infringing 3 patents relating to various features of smartphones. The district court (Circuit Judge Posner sitting by designation) excluded Apple's damages expert from

testifying regarding damages because that expert relied upon a technical expert to identify a potential design-around option that could have avoided infringement, and relied on the existence of that design-around option for his damages assessment. According to the Federal Circuit, “The district court’s decision states a rule that neither exists nor is correct. Experts routinely rely upon other experts hired by the party they represent for expertise outside of their field.” The court noted that patent damages experts often rely on technical expertise outside of their field when evaluating design-around options or valuing the importance of the specific infringing features in a complex device. The Federal Circuit also rejected the district court’s concerns that the technical expert who was hired by Apple could have been biased. According to the Federal Circuit, “this concern is addressed by the weight given to the expert’s testimony, not its admissibility.” The Federal Circuit also rejected the district court’s conclusion that Apple was not entitled to any damages because of its purported lack of admissible evidence, noting that the patent statute provides that the court must award damages “in no event less than a reasonable royalty.” The court stated that “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.”

6. Patent Co-Owner Can Preclude Infringement Suit

STC.UNM v. Intel Corp., 754 F.3d 940 (Fed. Cir. 2014). STC.UNM sued Intel for patent infringement, but the district court dismissed the suit for lack of standing because non-party Sandia Corp. was a co-owner of the patent but it had not voluntarily joined as a co-plaintiff and could not be involuntarily joined. The Federal Circuit affirmed, concluding that all co-owners must consent to join as plaintiffs in an infringement suit. The Federal Circuit explained that there are only scenarios that can overcome this rule: First, when a patent owner has granted an exclusive license, he can be involuntarily joined. Second, if the co-owner waives his right to join the suit, his co-owners may force him to join in a suit against infringers. Because neither of those scenarios was present, the Federal Circuit affirmed the dismissal. Judge Newman dissenting, arguing that Rule 19 provided for involuntary joinder of the non-consenting co-owner of the patent.

7. Stays of Litigation Pending PTO Review of Patent

Virtualagility Inc. v. Salesforce.com, Inc., 759 F.3d 1307 (Fed. Cir. 2014). Virtualagility sued Salesforce.com and several other defendants for infringing a U.S. patent directed to processing management information. Shortly after the suit was filed, Salesforce.com filed a petition with the U.S. Patent Trial and Appeal Board (PTAB) seeking post-grant review of all claims of the patent under the so-called “Covered Business Method (CBM) Review” program. A few days later, the defendants filed a motion to stay the district court proceedings pursuant to AIA § 18(b)(1). While the motion was pending, the PTAB granted the petition to review the patent. The district court thereafter denied the motion to stay, and the defendants appealed the denial to the Federal Circuit, which is permitted by statute as an

interlocutory appeal.

The Federal Circuit looked at the four factors provided under the statute to decide whether an a stay should be granted: (1) whether a stay would simplify the issues for trial; (2) whether discovery is complete; (3) whether a stay would prejudice the nonmoving party; and (4) whether a stay would reduce the burden of litigation.

The Federal Circuit began by sidestepping the standard of review, holding that even under a more deferential abuse of discretion standard, the district court's decision to deny a stay was erroneous. According to the Federal Circuit, "the district court erred as a matter of law to the extent that it decided to 'review' the PTAB's determination that the claims of the '413 patent are more likely than not invalid in the posture of a ruling on a motion to stay." The Federal Circuit also found it significant that the PTAB granted review of all claims of the single asserted patent. "This CBM review could dispose of the entire litigation: the ultimate simplification of issues."

8. Consumer Groups May Lack Standing to Attack Patents

Consumer Watchdog v. Wisconsin Alumni Research Foundation, 753 F.3d 1258 (Fed. Cir. 2014). Consumer Watchdog requested inter partes reexamination of a patent directed to human embryonic stem cell cultures. It appealed from the PTAB's decision affirming the patentability of the claims of the patent. The Federal Circuit dismissed the appeal, concluding that Consumer Watchdog lacked Article III standing to pursue the appeal. In particular, Consumer Watchdog had no involvement in any research or commercial activities involving human embryonic stem cells, and had failed to identify any injury aside from the PTAB's denying the particular outcome it desired. "Because Consumer Watchdog has not identified a particularized, concrete interest in the patentability of the '913 patent, or any injury in fact flowing from the Board's decision, it lacks standing to appeal the decision affirming the patentability of the amended claims."

9. Contempt Order Not Appealable Until Sanctions Determined

Arlington Industries, Inc. v. Bridgeport Fittings, Inc., 759 F.3d 1333 (Fed. Cir. 2014). Arlington sued Bridgeport in for infringing a patent relating to a method for connecting electrical cables to a junction box. The parties entered into a settlement agreement under which Bridgeport agreed to be enjoined from making and selling certain products. Years later, after Bridgeport had redesigned its products, Arlington sought a contempt order holding that the redesigned connectors violated the injunction. The district court found that Bridgeport was in contempt of the injunction and also expressly enjoined the sale of the redesigned connectors, but before it determined any sanctions for the contempt, Bridgeport appealed to the Federal Circuit. The Federal Circuit dismissed the appeal, concluding that because the district court had not modified the injunction but merely interpreted it, the

decision was not a final decision ripe for appeal. The court concluded that the earlier 2004 injunction and the newly-issued order were directed to the same parties, applied to the same activities, and were in force for the same time period. Even though the district court's newly-issued injunction differed slightly in wording from the earlier 2004 order, it did not change the scope of the earlier injunction, which applied to products that were not "colorably different" from the ones found to infringe.

10. Declaratory Judgment Jurisdiction Where Customers Are Sued

Microsoft Corp. v. Datatarn, Inc., 755 F.3d 899 (2014). Datatarn sued several customers of Microsoft and SAP for infringing two of its patents. Datatarn sent the customers claim charts showing how their use of Microsoft's and SAP's software infringed the patents, with reference to certain Microsoft and SAP product manuals showing how to use the software. After several of the customers demanded indemnity from Microsoft and SAP, the latter filed declaratory judgment actions against Datatarn, seeking a declaratory judgment that the patents were invalid and not infringed. The district court refused to dismiss the DJ actions because Datatarn had provided claim charts showing infringement and because of the indemnification demands from the customers. The Federal Circuit affirmed the denial of the dismissal motions, concluding that although it was not enough to base jurisdiction on the indemnity demands, the fact that Datatarn provided claim charts pointing to Microsoft and SAP manuals as the basis for infringement gave rise to a substantial controversy regarding whether they induced infringement.

11. Inequitable Conduct

Apotex Inc. v. UCB, Inc., ___ F.3d ___, 2014 WL 3973498 (Fed. Cir. August 15, 2014). Since the Federal Circuit's 2011 en banc decision in *Therasense Inc. v. Becton, Dickinson and Co.*, 649 1276 (Fed. Cir. 2011), it has been much harder to prove that a patent applicant engaged in inequitable conduct that renders a patent unenforceable. This is a rare case in which such a ruling was upheld. Apotex owns a patent for a process for manufacturing a pharmaceutical drug that treats hypertension. Apotex's founder and chairman drafted the patent application, which included certain examples of experiments that were never conducted. He also hired an expert to persuade the U.S. PTO to allow the patent, based partly on false information regarding what was known in the prior art. The district court found that the founder's testimony at trial was not credible, and that he intended to mislead the PTO based on the never-conducted experiments and the falsely submitted information. The Federal Circuit affirmed, concluding that the patent specification and the affirmative misrepresentations were material to patentability (i.e., the PTO would never have issued the patent absent the misconduct). The Federal Circuit also concluded that there was intent to deceive the PTO, based on the founder's extensive prior patent prosecution experience. Accordingly, the patent was held to be unenforceable and the infringer was not liable for patent infringement.

12. Patent Exhaustion

Lifescan Scotland, Ltd. v. Shasta Tech., LLC, 734 F.3d 1361 (Fed. Cir. Nov. 4, 2013). Lifescan, which manufactures the “OneTouch Ultra” blood glucose monitoring system, sued Shasta for infringement of patents covering a method of measuring blood glucose. The method refers to steps performed by a measuring strip and steps performed by a blood glucose meter. Lifescan sells 40% of its meters below cost, and distributes the remaining 60% of its meters for free, but it makes money by selling the blood glucose test strips for use with its meters, with the expectation that customers will purchase strips from Lifescan. Shasta does not sell blood glucose meters, but it does sell test strips that are designed to be used with Lifescan’s meters. Lifescan sued for indirect infringement, arguing that people who purchased test strips from Shasta would be direct infringers. The district court agreed, granting a preliminary injunction against Shasta. The district court concluded that Lifescan’s free distribution of its meters did not “exhaust” its patent rights because it had received no money for the meters so distributed. It also concluded that exhaustion did not apply because the “inventive feature” of the patent related to the test strips, not to the meters.

The Federal Circuit reversed, concluding that the Supreme Court’s decision in *Quanta Computer v. LG Electronics*, 553 U.S. 617 (2008), was controlling. According to the Federal Circuit, *Quanta* confirmed that the exhaustion doctrine applied to method patents, including where the sale of an item “that embodied the method” were sold. In this case, the sale of the meters by Lifescan had no reasonable non-infringing use other than to be used with the test strips. The Federal Circuit rejected Lifescan’s argument that the meters had some reasonable non-infringing uses. The court also rejected Lifescan’s argument that the meters did not embody the “inventive features,” pointing to prosecution history showing that claims directed to the test strips by themselves were rejected, and only claims involving the meter were allowed. Because the “inventive features” were in the meters that were given away for free, the patent owner exhausted any patent rights in the meters, including method claims covering the meters, which had no other use other than in the claimed method. The court also noted that “allowing LifeScan to control sale of the strips would be akin to allowing a tying arrangement whereby the purchasers of the meters could be barred from using the meters with competing strips.” The court explained that “the authorized transfer of ownership in a product embodying a patent carries with it the right to engage in that product’s contemplated use.” Finally, the court rejected Lifescan’s argument that because it gave the meters away for free, it had not received any reward for its patent. The court explained that “in the case of an authorized and unconditional transfer of title, the absence of consideration is no barrier to the application of patent exhaustion principles.” According to the court, “patent exhaustion principles apply equally to all authorized transfers of title in property, regardless of whether the particular transfer at issue constitute a gift or a sale.”

Judge Reyna dissented, concluding that the test strips, and not the meter, embodied the “essential features” of the patented method. Judge Reyna explained that the steps performed by the meter could only be carried out by the unique configuration of the

test strips.

Keurig, Inc. v. Sturm Foods, Inc., 732 F.3d 1370 (Fed. Cir. Oct. 17, 2013). Keurig sells single-serve coffee brewers and cartridges for use in those brewers, and holds patents directed to brewers and methods of using them to make beverages. Sturm sells cartridges for use in Keurig’s brewers, but does not itself sell brewers. Keurig sued, alleging that the use of Sturm’s cartridges in Keurig’s brewers directly infringed its patents. The district court granted summary judgment of non-infringement based on the principle of patent exhaustion – i.e., that Keurig’s sale of its brewers exhausted any patent rights in the method of using the cartridges in combination with the brewers. The Federal Circuit affirmed, concluding that method claims are exhausted by an authorized sale of an item that substantially embodies the method if the item (1) has no reasonable noninfringing use, and (2) includes all inventive aspects of the claimed method. The court also held that where a person has purchased a patented machine of the patentee, the purchase carries with it the right to use of the machine so long as it is capable of use. According to the court, Keurig sold its patented machines without conditions and its purchasers obtained the right to use them in any way they chose. Consequently, Keurig’s right to assert infringement of the method claims were exhausted by the authorized sale of Keurig’s patented brewers. “Here, Keurig is attempting to impermissibly restrict purchasers of Keurig brewers from using non-Keurig cartridges by invoking patent law to enforce restrictions on the post-sale use of its patented products.” The court also rejected the argument that patent exhaustion must be determined on a claim-by-claim basis: “The Court’s patent exhaustion jurisprudence has focused on the exhaustion of the patents at issue in their entirety, rather than the exhaustion of the claims at issue on an individual basis.”

13. Induced Infringement – Belief in Invalidity as Defense

Commil USA, LLC v. Cisco Systems, Inc., 720 F.3d 1361 (Fed. Cir. 2013). In a ruling of first impression, the Federal Circuit held that an accused infringer’s good-faith belief that a patent was invalid could defeat an accusation of induced infringement. Previously, the court had ruled that a belief that the patent was not infringed was sufficient to defeat a claim of induced infringement. According to the court, “We see no principled distinction between a good-faith belief of invalidity and a good-faith belief of non-infringement for the purpose of whether a defendant possessed the specific intent to induce infringement of a patent.” Five judges dissented from the denial of the petition for rehearing en banc. According to Judge Reyna, “infringement and invalidity are separate issues under the patent code and our precedent.”

14. Burden of Proving Infringement in a DJ Action

Medtronic, Inc. v. Mirowski Family Ventures, LLC, 134 S.Ct. 843 (2014). The U.S. Supreme Court reversed the Federal Circuit in this case, holding that the burden of proving patent infringement remains on the patent owner, even when a licensee seeks a declaratory judgment of noninfringement. According to the Supreme Court: “When a patent licensee paying royalties into an escrow account under a patent licensing agreement seeks a declaratory judgment that some of its products are not covered by or do not infringe the patent . . . the burden of persuasion is with the patentee, just as it would be had the patentee brought an infringement action.”

15. Patent Trolls – New Proposed Legislation, Litigation Strategies & More

H.R. 3309 – Innovation Act (passed the House on December 5, 2013) – not yet taken up in the Senate. Seeks to curb so-called “troll abuse” by, among other things:

Section 3 -- More Detailed Pleading: Requires party alleging infringement to identify in court pleadings details about each claim allegedly infringed; each accused process, machine, manufacture or composition of matter alleged to infringe. Also requires alleged acts that give rise to indirect infringement; identify each complaint filed that alleges any of the same patents; and indicate whether a standard-setting body has declared such patent to be essential. Requires courts to award fees and expenses to the prevailing party unless position and conduct of nonprevailing party was reasonably justified or special circumstances are present. Requires court to join “interested party” if losing party alleging infringement is unable to pay. Limits discovery to information needed to determine meaning of patent claim terms.

Section 4 – Disclosure of Interested Persons: Requires plaintiffs upon filing complaint to disclose to the U.S. PTO identity of the assignee; any entity with a right to sublicense or enforce the patent; any entity that has a financial interest in the patent; and the ultimate parent entity of any assignee or entity.

Section 5 – Motion to Stay: Requires courts to grant a motion to stay action against a customer accused of infringing a patent if (1) the manufacturer is a party to the action or to a separate action involving the patent and (2) the customer agrees to be bound by any issues finally decided in the manufacturer action.

Section 6 – Judicial Conference: Directs the Judicial Conference to develop discovery rules and procedures that address categories of evidence and costs of production. Directs the Supreme Court to eliminate the model patent infringement complaint form currently provided and to provide new model allegations that are more detailed. [Note: the Judicial Conference has already proposed deleting the model patent infringement complaint form.]

Section 7 – Educational Resources: Directs the PTO to develop educational resources for small businesses to address patent infringement concerns.

Section 8 – USPTO Study: Directs the PTO to study and report to Congress regarding various aspects of U.S. patent ownership and transparency, including demand letter practices.

Section 9 – Amends the AIA: Loosens estoppel provisions for post-grant review petitioners; requires claims in post-grant and inter partes review to be interpreted the same way as in litigation (instead of currently-used broadest reasonable interpretation). Expands the scope of prior art that can be relied upon in covered business method patent proceedings.

Various Senate bills drafted having similar provisions, but none has passed. Unlikely that anything will be passed until next Congress (2015). Senator Leahy introduced S. 1720 (Patent Transparency and Improvements Act) on November 18, 2013, but pulled the bill upon determining that there was not enough support to pass it.

Litigation Strategies for Dealing With Patent Trolls:

A. Easier fee-shifting provisions (see *Highmark* and *Octane* cases above): Can now threaten patent trolls with motions for fees for meritless cases.

B. File an IPR or CBM Review: PTO statistics show patent challengers have high rates of success in canceling and/or narrowing claims, and district court can stay litigation pending outcome of the IPR. *Virtualagility* case encourages stays pending outcome from PTO. And, reexamination/inter partes review decisions can trump litigation (see *Fresenius* and *ePlus* cases above).

C. File an Alice motion to invalidate patents on the pleadings. Several district courts have relied on *Alice* to invalidate patents even before discovery is underway or complete.

D. File a Nautilus motion to invalidate vaguely-worded patents.

E. State Legislatures Cracking Down on Demand Letters: So far, 17 states have either passed or have pending legislation that seeks to crack down on so-called “demand letters.” The legislation varies widely, but some common elements include:

(1) Mandatory disclosures of patent number, copy of patent, interested parties, factual allegations of infringement, and pending legislation;

(2) Private right of action (Vermont): an aggrieved person may bring a lawsuit in Superior Court. Public right of action (Louisiana): attorney general may investigate and pursue violations as unfair or deceptive trade practice.

(3) Remedies: injunctions; civil penalties; costs/fees; damages; punitive damages.

Key Take-Away: There are new tools that can be used against so-called “patent trolls,” with more on the way at the state and federal level.