

# Current Developments at the Supreme Court and Federal Circuit

Mark C. Fleming

Lisa Pirozzolo

Cindy Vreeland

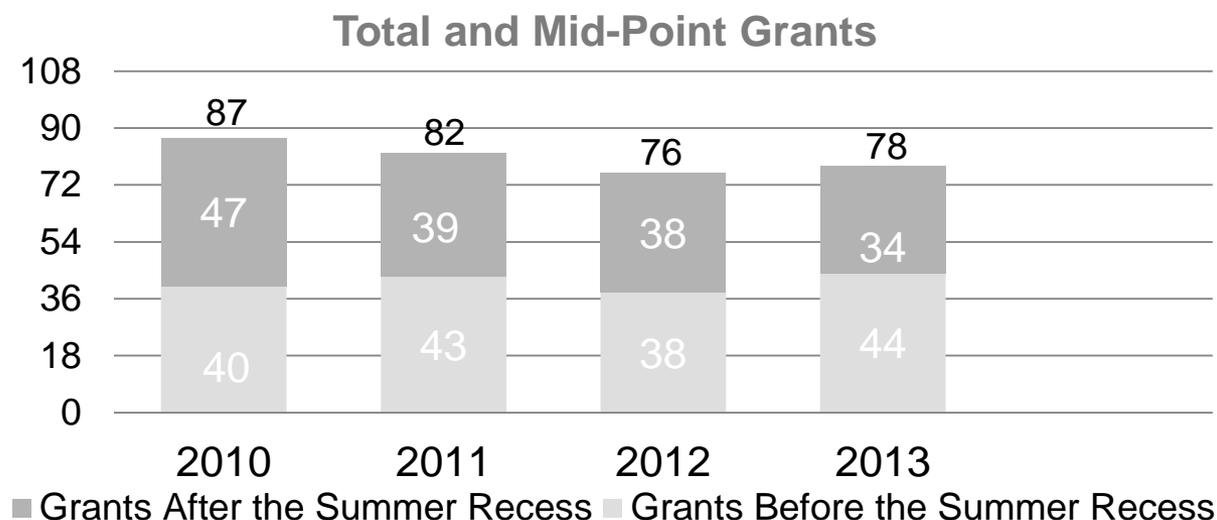
WILMERHALE® 

WILMER CUTLER PICKERING HALE AND DORR LLP®



# Supreme Court Docket Overview

- Over the last 20 years, the Court has steadily reduced the number of cases decided. In the 1990 term, for example, the Court issued decisions in 116 cases after oral argument.
- Since 2005, the Court has averaged fewer than 80 decisions.
- In 2013-14, the Court had 78 merits cases slated for decision after argument—but counting consolidated cases as one, the number of decisions after argument was only 70.





# Docket Overview

## Record Number of Patent Cases

- The Roberts Court has been very interested in patent law.
- Although the overall number of cases on the Court's docket has declined, the number of patent cases has continued to increase: 16 patent cases since 2009.
- This term, the Supreme Court heard 6 patent cases and 2 copyright cases (a record high).
- Several potential reasons:
  - Increasing importance of IP in the national economy
  - Increasing number of patent cases that go to final judgment / appeal
  - Increasing value at stake in IP cases
  - Divided en banc decisions by the Federal Circuit
  - Sophisticated ability of parties/counsel to position cases for Supreme Court review
- Patent cases frequently decided 9-0, often against the patentee.



## Patent Cases Since 2010

### *Bilski v. Kappos* (2010)

- Method for risk management not patentable (rejected “machine or transformation” test as the only test)

### *Global Tech Appliances v. SEB S.A.* (2011)

- Induced infringement under Section 271(b) requires knowledge that the induced acts constitute patent infringement or deliberate indifference

### *Stanford v. Roche* (2011)\*

- Title to federally-funded inventions vests in inventors, not employers

### *Microsoft v. i4i* (2011)\*

- “Clear and convincing” standard for invalidity affirmed

### *Caraco v. Novo Nordisk* (2012)

- Generic manufacturers can market a drug for a use that is not covered by a patent even if a brand-name manufacturer has a patent for another use



## Patent Cases Since 2010

### *Mayo v. Prometheus Labs.* (2012)

- Method for calibrating proper dosage of drug not patentable

### *Kappos v. Hyatt* (2012)

- Patent applicant may introduce new evidence in a 35 U.S.C. § 145 proceeding

### *Gunn v. Minton* (2013)

- No federal jurisdiction over state-law malpractice claims related to patent cases

### *Bowman v. Monsanto* (2013)\*

- Farmers cannot reproduce “saved” patented seeds

### *Assoc. for Molecular Pathology v. Myriad Genetics* (2013)

- Naturally occurring DNA segment is not patentable, synthetic complementary DNA (“cDNA”) is patentable



# Medtronic v. Mirowski Family Ventures\*

## Background

- In *MedImmune, Inc. v. Genentech, Inc.* (2007), the Court held that a patent licensee could sue for declaratory judgment of invalidity or non-infringement without first breaching the license.
- Medtronic licenses two patents from Boston Scientific, which in turn is the exclusive licensee of patent owner Mirowski Family Ventures, LLC.
- Medtronic, while continuing to make royalty payments, sued for declaratory judgment of non-infringement and invalidity.
- Mirowski could not counterclaim for infringement because of license.

## Question Presented

- Whether, in a declaratory judgment action brought by a licensee, the licensee has the burden to prove that its products do not infringe the patent, or whether (as is the case in all other patent litigation, including other declaratory judgment actions), the patentee must prove infringement.
- \*WilmerHale represented Medtronic



# Medtronic v. Mirowski Family Ventures

## Procedural History

- The district court placed the burden of proving infringement on Mirowski.
- After bench trial, the district court entered judgment of non-infringement.
- The Federal Circuit reversed, holding that Medtronic, as the declaratory judgment plaintiff, had the burden of proving non-infringement.
- United States appeared as *amicus* supporting Medtronic

## Decision (9-0, Breyer, J.) (Jan. 22, 2014)

- In a declaratory judgment, in which the licensee seeks to establish that its products do not infringe the licensed patent, the patentee bears the burden of persuasion on the issue of infringement.
- Implications may well be narrow for modern licenses, but may have effects for more longstanding licenses that condition a royalty on practicing the patent



# Nautilus v. Biosig Instruments

## Background

- Biosig was assigned a patent for a heart-rate monitor for use with exercise equipment that purportedly has the ability to distinguish between electrocardiograph signals and electromyogram signals (signals from the muscle that share frequency of heart signals)
- Biosig alleged that Stairmaster (later acquired by Nautilus) manufactured and sold exercise equipment with heart rate monitors that infringed its patent.
- Parties sparred over the meaning of “spaced relationship” between electrodes.

## Question Presented

- Does the Federal Circuit’s acceptance of ambiguous patent claims with multiple reasonable interpretations, so long as they are not “insolubly ambiguous,” defeat the statutory rule that requires particular and distinct patent claims?



# Nautilus v. Biosig Instruments

## Competing Standards of Definiteness

- 35 U.S.C. § 112 requires that “[t]he specification shall conclude with one more claims particularly pointing out and distinctly claiming the subject matter which the inventor or a joint inventor regards as the invention.”
  
- **Two different tests for indefiniteness:**
  - **Prosecution (USPTO):** Broad standard – Patent claims are indefinite in the face of multiple reasonable interpretations. *Ex parte Miyazaki*, 89 USPQ2d 1207 (Bd. Pat. App. & Int. 2008)
  - **Litigation (Fed. Cir.):** Narrow standard – Patent claims are indefinite only when it is “not amenable to construction” or “insolubly ambiguous.”



# Nautilus v. Biosig Instruments

## Decision (9-0, Ginsburg, J.) (June 2, 2014)

- The Court significantly lowered the standard for indefiniteness: “A patent is invalid for indefiniteness if its claims, read in light of the patent’s specification and prosecution history, fail to inform, with reasonable certainty, those skilled in the art about the scope of the invention.”
- The definiteness requirement must allow for “some modicum of uncertainty” to incentivize innovation while requiring sufficient precision to fulfill the public-notice function of the requirement
- The Federal Circuit’s “insolubly ambiguous” standard “leave[s] courts and the patent bar at sea without a reliable compass.”
- The Court expressly left open “for another day” the issues of standard or review for definiteness findings.



# Nautilus v. Biosig Instruments

Remand (Oct. 29, 2014) (before Newman, Schall, Wallach JJ.)

- Biosig: The Supreme Court “didn’t materially change” the test
- Nautilus: Claim should be “as precise as the subject matter permits”
- Judge Newman: “They came out with no standard. ... There has been a sense that the obligation on remand is to somehow add as much precision as language can add to this relatively vague standard.”
- Unfortunately, very little guidance so far.



# Alice Corp. v. CLS Int'l Bank

## Background

- Section 101 broadly describes the types of inventions that are patentable.
- Judicial exception for “*abstract ideas*” – algorithms, equations, application of natural relationships (*Mayo v. Prometheus*).
- Alice obtained a patent for software designed to create settlement arrangements for exchanging financial instruments. CLS Bank (and an affiliate) challenged the validity and enforceability of the patent. Alice counterclaimed for infringement.
- The district court invalidated the patent.
- The Federal Circuit reversed, finding that the computer implementation steps satisfied § 101.



# Alice Corp. v. CLS Int'l Bank

## Splintered En Banc Federal Circuit Decision

- The Federal Circuit granted rehearing *en banc* and reinstated the district court opinion in a divided decision.
- In a short *per curiam* opinion, the court “affirm[ed] the district court’s holding that the asserted method and computer-readable media claims are not directed to eligible subject matter under 35 U.S.C. § 101.”
- An equally divided court affirm[ed] the district court’s holding that the asserted system claims are not directed to eligible subject matter under that statute.” *Id.* at 1273.
- Five additional opinions and “additional reflections” by Chief Judge Rader were issued, none of which was joined by a majority of the court.



# Alice Corp. v. CLS Int'l Bank

## Question Presented

- Whether claims for a computer-implemented scheme for mitigating settlement risk are patent eligible under 35 U.S.C. § 101, or are instead drawn to a patent-ineligible abstract idea.



# Alice Corp. v. CLS Int'l Bank

## Decision (9-0; Thomas, J.) (June 19, 2014)

- *Mayo* recognized as creating a two-step “framework” for applying the judicial exceptions to patent-eligibility:
  - Are the claims “directed to” or “drawn to” a patent-ineligible concept, such as an abstract idea?
  - If so, does the rest of the claim supply “the necessary inventive concept,” or are the added elements “purely conventional”?
- Using a computer to implement the age-old idea of intermediated settlement is not enough; it only requires “a generic computer to perform generic computer functions”
- “Improv[ing] an existing technological process” would suffice, however.
- As would, “improv[ing] the functioning of the computer itself”



# Alice Corp. v. CLS Int'l Bank

## Implications for § 101 Motions at the Pleadings Stage

- *WildTangent v. Ultramercial* (June 30, 2014): vacating the Federal Circuit's decision in light of *Alice*

## Implications for Business Method Patents

- Three votes in *Alice* to abolish business method patents altogether (Sotomayor J., joined by Ginsburg & Breyer, JJ.)



# Alice Corp. v. CLS Int'l Bank

## Implications at the Federal Circuit

- *Digitech Image Technologies v. Electronics for Imaging* (Fed. Cir. July 11, 2014): invalidated patent claims describing a process of organizing information through mathematical correlations not tied to a specific structure or machine.
- *I/P Engine v. AOL* (Fed. Cir. Aug. 15, 2014) (per curiam): invalidated on obviousness grounds patent claims related to filtering Internet search results
  - “I/P Engine’s claimed system is merely an Internet iteration of the basic concept of combining content and collaborative data, relying for implementation on ‘a generic computer to perform generic computer functions.’”



# Alice Corp. v. CLS Int'l Bank

## Implications at the Federal Circuit

- *Planet Bingo, LLC v. VKGS* (Fed. Cir. Aug. 26, 2014): invalidated patent claims for computer-assisted storing, retrieving, and verifying of information during bingo ticket purchases
  
- *buySAFE v. Google* (Fed. Cir. Sept. 3, 2014): invalidated patent claims to methods and system for guaranteeing performance of online transactions
  - “This case involves claims directed to creating familiar commercial arrangements by use of computers and networks.”



# Alice Corp. v. CLS Int'l Bank

## Implications at the PTO

- Six days after the decision, the PTO issued its preliminary interpretation
- Potential for new PTO examination guidelines, as with the March 2014 “laws of nature” guidelines implementing *Mayo* and *Myriad*



UNITED STATES PATENT AND TRADEMARK OFFICE

Commissioner for Patents  
United States Patent and Trademark Office  
P.O. Box 1450  
Alexandria, VA 22313-1450  
www.uspto.gov

**MEMORANDUM**

**DATE:** June 25, 2014

**TO:** Patent Examining Corps

**FROM:** Andrew H. Hirshfeld  
Deputy Commissioner  
For Patent Examination Policy

**SUBJECT:** Preliminary Examination Instructions in view of the Supreme Court Decision in *Alice Corporation Pty. Ltd. v. CLS Bank International, et al.*

Last week, in a unanimous decision, the Supreme Court held that the patent claims in *Alice Corporation Pty. Ltd. v. CLS Bank International, et al.* (“*Alice Corp.*”) are not patent-eligible under 35 U.S.C. § 101. The patents at issue disclose a scheme for mitigating “settlement risk,” *i.e.*, the risk that only one party to an agreed-upon financial exchange will satisfy its obligation, in which a computer system is used as a third-party intermediary between the parties to the exchange. The patent claims are styled as a method for exchanging financial obligations, a computer system configured to carry out the method, and a computer-readable storage medium containing program code for causing a computer to perform the method.

The Court determined that *Alice Corp.*’s claims to methods were ineligible because “the claims at issue amount to ‘nothing significantly more’ than an instruction to apply the abstract idea of intermediated settlement using some unspecified, generic computer.” *Alice Corp.*’s claims to computer systems and computer-readable storage media were held ineligible for substantially the same reasons, *e.g.*, that the generically-recited computers in the claims add nothing of substance to the underlying abstract idea. Notably, *Alice Corp.* neither creates a *per se* excluded category of subject matter, such as software or business methods, nor imposes any special requirements for eligibility of software or business methods.

The purpose of this memorandum is to provide preliminary instructions effective today to the Patent Examining Corps relating to subject matter eligibility of claims involving abstract ideas,



# Alice Corp. v. CLS Int'l Bank

## Implications in the District Courts

- Cited dozens of times since issuing
- *Loyalty Conversion Systems Corp. v. American Airlines*, Judge Bryson sitting by designation (E.D. Tex. Sept. 3, 2014): granting defendant airlines' motion for judgment on the pleadings and invalidating patents on computer-driven method and computer program for converting one vendor's loyalty award credits into loyalty award credits of another vendor
- *Genetic Technologies Ltd. v. Lab. Corp. of America Holdings* (D. Del. Sept. 3, 2014): magistrate judge holding that the steps recited in the method claim did not convert the predicted correlation between alleles and athletic performance, a natural phenomenon, into patent-eligible subject matter under § 101



# Induced and Divided Infringement

## *Limelight Networks v. Akamai Techs*

- Induced and divided infringement for claims performed by multiple actors

## *Commil v. Cisco*

- Good faith belief in invalidity as a defense to induced infringement

## *Suprema v. ITC*

- ITC authority over induced infringement of method claims directly infringed after importation



# Limelight Networks v. Akamai \*

## Background

- “Divided infringement” occurs when acts necessary for infringement are performed by multiple parties collectively, but no single party performs all required acts. Common issue for patents involving technologies distributed through the Internet or wireless networks.
- Akamai obtained a patent for a more efficient method of directing Internet traffic for its customers’ websites.
- Akamai sued Limelight for infringement on the theory that Limelight had performed some of the steps of Akamai’s patented process, and instructed its customers to carry out one or two remaining steps. A jury found that Limelight infringed.
- The district court overturned the verdict. A Federal Circuit panel affirmed, ruling that divided infringement liability arises only when one party is the other’s **agent** or **contractual obligor**.

---

\* WilmerHale represents Akamai on appeal.



# Limelight Networks v. Akamai

## Divided Federal Circuit *En Banc* Decision

- In a sharply divided 6-5 decision, the Federal Circuit:
  - Did not revisit prior cases holding that direct infringement under 271(a) requires that a party must perform all the claim steps personally or through an **agent** or **contractual obligor**; BUT
  - Ruled that inducement under 271(b) may arise where a party “advises, encourages, or otherwise induces others to engage in infringing conduct” *even though* there is no single party that performs *all* of the claim steps.

## Government’s Position

- The United States filed an *amicus* brief in support of Limelight, arguing that liability for inducing infringement requires that the induced party perform *all* of the steps needed for direct infringement under 271(a), even though “sound reasons of patent policy” support some form of liability.



# Limelight Networks v. Akamai

## Supreme Court Decision (9-0, Alito, J.) (June 2, 2014)

- Court “assum[ed] without deciding” that *Muniauction* is correct, and that a “single infringer” is needed for direct infringement under Section 271(a).
- Since no single person performed all of the steps necessary for direct infringement, “Limelight cannot be liable for inducing infringement that never came to pass.”
- Although a potential infringer could “evade liability by dividing performance of a method patent’s steps with another whom the defendant neither directs or controls,” this is merely a result of the Federal Circuit’s interpretation of §271(a) in *Muniauction*, and a desire to avoid this consequence “does not justify fundamentally altering the rules of inducement liability . . .”
- “[T]he Federal Circuit will have the opportunity to revisit the § 271(a) question if it so chooses.”



# Limelight Networks v. Akamai

## Federal Circuit Remand (Sept. 11, 2014) (Prost C.J., Linn, Moore JJ.)

- Federal Circuit dissolved *en banc* court, meaning that panel is bound by panel precedent, including *Muniauction*.
  - Akamai argues that Limelight directs or controls its customers' performance of the claim steps more intimately than the defendant in *Muniauction*.
- C.J. Rader was replaced on the panel by Judge Moore, who was the most active during oral argument.
- Potential for *en banc* review after panel decision.

## Practical Implications

- Drafting:
  - Consider risk that method claims can be circumvented by dividing up the steps among collaborating parties.
  - Include method claims directed at each step of supply chain.
- Enforcement: assert system or apparatus claims as well as method claims.



# Commil v. Cisco (cert. pending)\*

## Background

- In *Global-Tech* (2011), the Court held that induced infringement under 35 U.S.C. § 271(b) “requires knowledge that the induced acts constitute patent infringement.”
- Cases have long held that a defendant’s good-faith belief that it does not *infringe* negates the specific intent requirement. In *Commil*, a divided Federal Circuit panel ruled that a good-faith belief of patent *invalidity* does likewise.

## Questions Presented in Cert. Petition

1. Whether a defendant’s good faith belief that a patent is invalid is a defense to induced infringement under 35 U.S.C. § 271(b).
2. Whether jury instructions were correct in stating that Cisco could be liable if it “should have known” of infringement, rather than requiring actual knowledge.
3. (Cross-petition) Whether the district court violated the Seventh Amendment in granting a new trial on induced infringement but not on invalidity.

---

\* WilmerHale represents Cisco on appeal.



# Commil v. Cisco (cert. pending)

## Solicitor General's Recommendation (Oct. 16, 2014)

- Grant on first question. A good-faith belief of invalidity is not a defense to inducement.
  - *Global-Tech* “does not clearly resolve ... whether the defendant must ... possess actual knowledge that the induced conduct constitutes infringement.”
- Deny on second question. *Commil* did not dispute that *Global-Tech* requires actual knowledge of infringement.
  - However, could merit cert. in an appropriate case. While *Global-Tech*'s statements may be more consistent with the text, “considerations of patent policy” might support requiring “only knowledge of the patent, combined perhaps with knowledge that the *patentee* views the induced acts as infringing”
- Deny Cisco's cross-petition: although the Federal Circuit stated the wrong Seventh Amendment test, the error was harmless.

**Cert decision expected in early December**



# Suprema v. ITC (*en banc* pending )

## Background

- The ITC has the authority to issue exclusion orders when it finds a violation of Section 337 (i.e., patent infringement, plus the presence of a “domestic industry” related to the patent.)
- The ITC has interpreted this statute to permit exclusion orders based on a finding of induced infringement even when direct infringement will not occur until *after* products are imported into the U.S.

## Issue

- Whether the ITC can issue an exclusion order based on an inducement theory when the underlying acts of direct infringement occur only *after* importation.



# Suprema v. ITC (*en banc* pending)

## Pending *En Banc* Case

- *Suprema v. ITC* raises this issue in a case involving fingerprint scanners. The alleged infringement occurs when the scanners are combined with software after they are imported into the United States.
- The ITC issued an exclusion order for Suprema's products on an inducement theory, even though the products can only infringe after importation.
- A Federal Circuit panel reversed the ITC's order, holding that the ITC's authority "cannot extend to the conduct proscribed in § 271(b) where the acts of underlying direct infringement occur post-importation."
- The ITC and the complainant, Cross Match, argue that the panel decision would create a significant loophole in Section 337.



# Teva v. Sandoz (argued Oct. 15, 2014)

## Background

- In *Markman v. Westview Instruments*, the Supreme Court held that claim construction is for the court, not the jury.
- Since *Markman*, the Federal Circuit has twice held *en banc* that claim construction decisions should be reviewed de novo (*Cybor v. FAS Technologies*; *Lighting Ballast v. Philips*)
- The Federal Circuit reviews all aspects of a district court's claim construction decision, including factual findings, *de novo* and without deference to the district court's finding.

## Question Presented

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



## Teva v. Sandoz

- Teva argued, and the district court agreed, that the term “average molecular weight” was not insolubly ambiguous because expert testimony and the patent both pointed to a particular method for calculating average molecular weight.
- On de novo review, the Federal Circuit relied on expert testimony and contradictory statements in the file history in finding the term indefinite.
- Teva argues that FRCP 52 precludes appellate courts from second-guessing district court’s factual findings unless the findings are “clearly erroneous”
  - District courts are better equipped to make factual findings, particularly regarding scientific facts relevant to claim construction
- Sandoz responds: “interpretive issues”—including subsidiary factual questions, even when they involve expert credibility—are purely legal
  - Statements in patents and file histories are “legislative facts” for interpretation by courts.



## Teva v. Sandoz

- **US Government** supported some deference, but disagreed with Teva on which questions in the claim construction exercise were “factual findings”
  - US says that findings regarding information that is outside the patent itself deserves deference (e.g., that a statement in the prosecution history was scientifically inaccurate)
  - However, the determination of how a skilled artisan *interpreting the patent claims* in light of those findings is a legal inference reviewed de novo
- Some Justices (notably **Roberts, C.J.** and **Alito, J.**) raised practical concerns:
  - Inconsistent constructions, none of which is “clearly erroneous” (US govt: “it’s pretty unlikely that that scenario is going to occur”)
  - Threshold litigation about whether an issue is “factual” or “legal”; even Teva and the government disagreed on one instance
  - Not clear if the “game is worth the candle”
  - District courts are better equipped to make factual findings, particularly regarding scientific facts relevant to claim construction
- Others (**Scalia, Breyer & Kagan, JJ.**) seemed concerned that patent law not be treated differently from other areas where factual findings get deference



# Octane Fitness v. ICON Health & Fitness

## Background

- In *Brooks Furniture v. Dutailier* (2005), the Federal Circuit established a mechanical test for awarding fees to a prevailing defendant in an infringement case:
  - (1) Litigation involves material misconduct (e.g., willfulness, inequitable conduct, misconduct during litigation); or
  - (2) Litigation is brought in subjective bad faith and is “objectively baseless”
- In *Octane*, the district court granted summary judgment of non-infringement, but found no bad faith or objective baselessness so denied attorneys fees.
- The Federal Circuit affirmed without analysis.

## Question Presented

- Whether the Federal Circuit’s test for determining whether a case is “exceptional” under 35 U.S.C. § 285 impermissibly encumbers district courts’ discretion to award attorney’s fees.



# Octane Fitness v. ICON Health & Fitness

## Supreme Court Review

- The Justices seemed to struggle for a workable standard, repeatedly asking about the difference between “objectively baseless” and “meritless” (a term offered by Octane as a better standard).
- **Justice Scalia:** “Don’t you have to add something to meritless? I mean, every time you win the summary judgment motion, that’s a determination that the claim is without merit, isn’t it?” But Justices could not agree on what adjective should accompany “meritless.”
- **Chief Justice Roberts:** Suggested that the Court should defer to the Federal Circuit, which is designed to address the consequences of fee awards in a uniform way.
- **U.S. Government:** argued for a more flexible test, where fees are awarded where “necessary to prevent gross injustice”



# Octane Fitness v. ICON Health & Fitness

## Decision (9-0; Sotomayor, J.) (April 29, 2014)

- “Exceptional case” is “one that stands out from others with respect to the substantive strength of a party’s litigating position ... or the unreasonable manner in which the case was litigated.”
- Decision is to be made by district courts “in the case-by-case exercise of their discretion.” (Carried over from prior Act.)
- Bad faith alone, or objectively baseless litigation positions alone, could suffice to set a case apart; you don’t need both.
- Different from the antitrust context (*Professional Real Estate*), where a treble damages award potentially encroaches on the First Amendment right to petition the government.
- Preponderance, not clear and convincing evidence.



# Highmark, Inc. v. Allcare Health Mgmt.

## Background

- The Federal Circuit has applied *de novo* review to questions of law including claim construction, obviousness, enablement, definiteness, conception, objective component of willfulness
- In *Highmark*, a Federal Circuit panel applied *de novo review* to the “objectively baseless” component of the *Brooks Furniture* test for attorney’s fees.
- On appeal to the Supreme Court, the United States filed an *amicus* brief supporting reversal, calling for a more deferential standard of review for fee awards.

## Question Presented

- Whether a district court’s exceptional-case finding under 35 U.S.C. § 285, based on its judgment that a suit is objectively baseless, is entitled to deference.



# Highmark, Inc. v. Allcare Health Mgmt.

## Decision (9-0, Sotomayor, J.) (April 29, 2014)

- Very short decision, following from *Octane*.
- Because *Octane* holds that an “exceptional case” determination is discretionary, appellate review is for abuse of discretion.
- Together, the two decisions make it easier for district courts to award fees against patent trolls, and to have them stick on appeal. But they also may result in more fee awards against defendants even in non-willfulness cases.



# Attorney's Fees Granted

## Common Justifications for Awarding Fees

### *Strength of Litigating Position*

- Frivolous, objectively baseless, or exceptionally meritless claims
- Arguments or allegations that consist of unsupported or conclusory statements

### *Unreasonable Litigation Conduct*

- Dishonesty
- Failure to conduct adequate pre-suit investigation; assembly-line litigation strategy
- Pursuing claims when a party knew or should have known they were exceptionally meritless
- Unusually aggressive litigation strategy



## Attorney's Fees Granted

- *Kilopass Technology v. Sidense* (N.D. Cal.) – Using the new standard, court reversed prior denial of fees on the grounds that Kilopass “fail[ed] to conduct an adequate pre-filing investigation, shift[ed] its theories of infringement late in the litigation and without following proper procedures for amendment of contentions, and engag[ed] in conduct that amounted to gamesmanship.”
- *IPVX Patent Holdings v. Voxernet* (N.D. Cal.) –court granted fees on the grounds that IPVX never expected to prevail on certain claims, and was “unwilling to expend the resources necessary to support [them].”
- *Summit Data Systems v. EMC* (D. Del) –court held that “Summit’s practice of extracting settlements worth a fraction of what the case would cost to litigate supports a finding of exceptionality,” and stated that fees were necessary to deter “reckless and wasteful litigation.”



# Attorney's Fees Denied

## Common Justifications for Denying Fees

### *Strength of Litigating Position*

- Claim was reasonable based on plausible interpretation of law at time of filing
- Claim survived, or was accompanied by substantial evidence on, summary judgment
- Similar claim or argument succeeded in a different case

### *Unreasonable Litigation Conduct*

- Moving party had “unclean hands”
- No intentional misrepresentations
- Litigation strategy was not exceptionally aggressive



## Attorney's Fees Denied

- *Gametek v. Zynga* (N.D. Cal) – Court denied fees despite finding invalidity on the pleadings, because the claims would not have been frivolous based on the law at the time of filing, and because “post-*Octane* decisions awarding fees have concerned egregious behavior.”
- *EON v. Cisco Systems* (N.D. Cal.) – Court denied fees because EON received favorable rulings in other cases under the same claim construction. Court also held that the case was not extraordinary even though EON’s claims lacked merit.
- *CreAgri v. Pinnaclife* (N.D. Cal) – Court found that pre-suit investigation was adequate, and that CreAgri’s claims were not objectively baseless because it provided substantial evidence of infringement. Court also noted that both parties’ discovery positions were overly aggressive.



# Non-Practicing Entities

- At least fifteen cases decided since *Octane Fitness* involved claims against NPEs.
- Dispositions were evenly split: fees were granted in eight cases and denied in seven.
- Different approaches:
  - *Summit Data Systems v. EMC*, for example, explicitly stated that the discrepancy between settlement and litigation costs was relevant to whether the case was exceptional.
  - By contrast, in *EON v. Cisco* the Court wrote, “It cannot be the case that a plaintiff may be subjected to monetary sanctions for failing to drop a case against a defendant if the cost of litigation exceeds the potential recovery.”



# Beyond § 285

## Lanham Act

- Courts in five different districts have applied *Octane Fitness* to § 35(a) of the Lanham Act. The language in this section is identical to the language of § 285, and Justice Sotomayor's opinion relied in large part on statutory interpretation. Fees were granted in two out of five of these cases.

## Enhanced Damages

- In *Halo Electronics v. Pulse Electronics*, Judges O'Malley and Hughes called on courts to consider the applicability of *Octane Fitness* and *Highmark* to enhanced damages under § 284 of the Patent Act.
- Judge Crabb declined to use this approach in *Ultratec v. Sorenson* (W.D. Wis.).



# Patent Damages

## *VirnetX v. Cisco*

- Smallest saleable practicing unit

## *Ericsson v. D-Link, Microsoft v. Motorola, In re Innovatio*

- FRAND rate setting

## *Apple v. Samsung*

- Design patent damages

---

\* WilmerHale represents Apple in *Samsung* and on appeal in *VirnetX*, and Intel on appeal in *Ericsson*.



# VirnetX v. Cisco\*

## Background

- The Federal Circuit has tightened the requirements for patent damages in the past five years.
- Under the Federal Circuit’s entire market value rule (EMVR), to claim a royalty on the cost of the entire product, the patent owner must show that the patented feature is the basis for consumer demand. *E.g., Uniloc USA, Inc. v. Microsoft* (Fed. Cir. 2011), *LaserDynamics, Inc. v. Quanta Computer, Inc.* (Fed. Cir. 2012), *Versata v. SAP* (Fed. Cir. 2013).
- If the patented feature does not drive demand, the royalty base must be limited to at most the “smallest salable patent-practicing unit” (SSPPU) with “close relation” to the invention.

---

\* WilmerHale represents Apple on appeal.

# VirnetX v. Cisco

## Conflicting District Court Cases

- *GPNE Corp. v. Apple\** (N.D. Cal.) - Judge Koh held that a baseband processor of a cell phone was the smallest salable unit, notwithstanding that the patent claim was nominally written to encompass the entire device.
- *VirnetX Inc. v. Apple\**, *Ericsson v. D-Link \** (E.D. Tex.) – Judge Davis, in contrast, has repeatedly taken a broader view of the smallest salable unit, finding it to be the end products where the claims are drawn to those end products.
- *ThinkOptics, Inc. v. Nintendo of Am.* (E.D. Tex.) – Judge Davis also excluded a defendant’s damages expert’s opinion, which limited the royalty base to the components practicing the “inventive aspect” of the claimed invention, concluding that it was improper to exclude the value of claimed elements, regardless whether inventive.

---

\* WilmerHale represents Apple in *GPNE* and on appeal in *VirnetX* case, and Intel on appeal in *Ericsson*.



# VirnetX v. Cisco

## Federal Circuit Decision

- “[W]hen claims are drawn to an individual component of a multi-component product, it is the exception, not the rule, that damages may be based up on the value of the multi-component product.”
- Rejected argument that when the smallest salable unit is used as the royalty base, there is no further constraint on royalty base.
  - “[A] patentee’s obligation to apportion damages only to the patented features does not end with the identification of the smallest salable unit if that unit still contains significant unpatented features. . . . The law requires patentees to apportion the royalty down to a reasonable estimate of the value of its claimed technology, or else to establish that its patented technology drove demand for the entire device.”
- Separately, rejected “Nash Bargaining Solution” as an “inappropriate ‘rule of thumb.’”



# FRAND Rate Setting

## Background

- Members of standard setting bodies (e.g., IEEE, ETSI, 3GPP) agree to license their patents to standards users on reasonable and non-discriminatory (FRAND) terms.
- District Courts have been wrestling with the issue of determining FRAND royalty rates for standards essential patents (SEPs) asserted in litigation, as well as the related issue of “royalty stacking.”

## Issue

- Whether (**and how**) to set a royalty rate for a FRAND-committed standards essential patent.



# FRAND Rate Setting

## Pending Cases

- *Ericsson v. D-Link*\* (E.D. Texas) – Judge Davis followed the standard *Georgia-Pacific* method and refused to instruct the jury on royalty stacking, resulting in 5 cents per patent, per unit royalty for Wi-Fi patents. The decision illustrates the royalty stacking problem: 5 cents per patent x 3,000 Wi-Fi patents would result in \$150 royalty *per chip*.
  - Pending before Federal Circuit.
- *Microsoft v. Motorola* (W.D. Wash.) – Judge Robart took a proportional approach, attempts to limit recovery to the patentee’s contribution to the standard. The resulting royalties were 0.55 to 16.389 cents per unit for Motorola’s portfolio of H.264 patents, and 3.471 to 19.5 cents per unit for its portfolio of 802.11 patents.
  - Pending before Ninth Circuit.
- *In re Innovatio* (N.D. Ill.) – Judge Holderman viewed the profit margin as the royalty base, took a proportional approach based on the value of the patent to the standard and the overall number of patents declared essential. The resulting royalty was 9.56 cents per WiFi chip for Innovatio’s portfolio of 19 802.11 patents.

---

\* WilmerHale represents Intel on appeal.



# Apple v. Samsung (Fed Cir. pending)\*

## Background

- Section 289 provides that a party who infringes a design patent “shall be liable to the owner to the extent of his *total profit* . . .”
- Apple sued Samsung for infringement of design patents, utility patents, and for trade dress dilution.
- Court instructed jury that, if it found infringement of the design patents, it could award “*entire profit* on the sale of the article to which the patented design is applied, and *not just the portion of profit attributable to the design* or ornamental aspects of the patent.
- Jury found infringement and awarded \$930 million (after two trials), including \$399 million for infringement of the design patents.

## Question Presented

- Whether the Court erred in instructing the jury that it could award the defendant’s entire profit for infringement of design patents.

---

\* WilmerHale represents Apple.



# Apple v. Samsung (Fed Cir. pending)

## Apple's Argument

- Section 289 is clear that a design-patent holder is entitled to the infringer's "total profit."
- Legislative history and purpose support this reading. Congress adopted Section 289 to provide a "new rule of recovery" for design patents. House Committee on Patents confirmed belief that it was "expedient that the infringer's *entire profit* on the article . . . be recoverable" and that this sum was "*not apportionable*." (18 Cong. Rec. at 834 (emphasis added))

## Samsung's Argument

- Patent infringement is "essentially a tort" and thus requires proof of causation for damages.
- Section 289 incorporates causation requirement by permitting an award "to the extent of [the infringer's] total profit" on an "article of manufacture," and by stating that a patent owner "shall not twice recover the profit made from the infringement."



# Injunctions

## “Apple V” (in briefing)

- In the *Apple* trilogy (2012-2013), Federal Circuit panels adopted and expanded a “causal nexus” doctrine sharply limiting injunctive relief for infringement of patents that are infringed by multicomponent products.
- Patentee must not only show irreparable harm, but show a nexus between that harm and the patented feature, not merely the infringing conduct (i.e. sale of a patent-practicing product). Typically, this has required a showing that the patented feature drives customer demand for the overall product.
- In the latest appeal, Apple did not seek to enjoin entire Samsung products, but only use of the infringing features, and proposed a one-month sunset period so Samsung could design the features out of its phones.
- Despite finding that the balance of hardships and public interest favored Apple, district court denied an injunction.
- In briefing; oral argument likely in early 2015.



## Appeals from Post-Grant Reviews

- 86 IPR Appeals
  - 66 Pending
  - 7 IPR Writs
  - Opening briefs filed in 36 cases
  
- 13 CBMs Appeals
  - 10 Pending
  - 1 CBM Writ
  - Opening briefs filed in 6 cases



## Federal Circuit Review

- **Review of decisions on institution**
  - No review of PTAB decision not to institute IPR  
(*Volcano, In re Dominion Dealer Solutions*)
  - Open question whether decision to institute IPR reviewable after final written decision



## Federal Circuit Review

*Cuozzo Speed Technologies, LLC v. Garmin* (argued Nov. 4, 2014)

- Whether Federal Circuit can review PTAB’s decision to institute IPR, here for certain claims on grounds not identified in the Petition
  - Is decision to institute “reviewable” after final written decision?
- Whether the “broadest reasonable interpretation” standard applies to IPR
  - Does PTO have authority to make rules on claim construction standard
  - Why should result be different in PTO than district court
  - Motions to amend “not so easy”



## What to look for in the future

- **Review of decisions to institute, scope of decisions**
  
- **Claim Amendments**
  - Whether PTAB erred in denying patent owner's motion to amend that would have mooted some grounds for the review
  
- **Claim construction and the broadest reasonable interpretation standard**
  - Questioning how the PTAB should use a patent specification and dictionaries in reaching the broadest reasonable interpretation



## What to look for in the future

### ■ **Methodology for Obviousness Analysis**

- Whether the PTAB erred by finding claims obvious when party failed to identify a combination of references
- Whether the PTAB erred by finding claims obvious where party failed to identify PHOSITA
- Whether PTAB erred findings regarding PHOSITA's understanding of prior art without reliance on expert evidence
- Whether the PTAB erred by considering objective indicia only after already concluding that the challenged claims were obvious and by failing to consider uncontested objective indicia
- Scope of estoppel after final PTAB decisions

### ■ **Scope of estoppel after final PTAB decisions**



## Questions?

[Mark.Fleming@wilmerhale.com](mailto:Mark.Fleming@wilmerhale.com)

[Lisa.Pirozzolo@wilmerhale.com](mailto:Lisa.Pirozzolo@wilmerhale.com)

[Cynthia.Vreeland@wilmerhale.com](mailto:Cynthia.Vreeland@wilmerhale.com)



Wilmer Cutler Pickering Hale and Dorr LLP is a Delaware limited liability partnership. WilmerHale principal law offices: 60 State Street, Boston, Massachusetts 02109, +1 617 526 6000; 1875 Pennsylvania Avenue, NW, Washington, DC 20006, +1 202 663 6000. Our United Kingdom offices are operated under a separate Delaware limited liability partnership of solicitors and registered foreign lawyers authorized and regulated by the Solicitors Regulation Authority (SRA No. 287488). Our professional rules can be found at [www.sra.org.uk/solicitors/code-of-conduct.page](http://www.sra.org.uk/solicitors/code-of-conduct.page). A list of partners and their professional qualifications is available for inspection at our UK offices. In Beijing, we are registered to operate as a Foreign Law Firm Representative Office. This material is for general informational purposes only and does not represent our advice as to any particular set of facts; nor does it represent any undertaking to keep recipients advised of all legal developments. Prior results do not guarantee a similar outcome. © 2014 Wilmer Cutler Pickering Hale and Dorr LLP