

IN THIS ISSUE

The Supreme Court's Six-Pack
of Patent Cases 1

IP Client Spotlight 5

SPEAKING OF... 5

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The Supreme Court's Six-Pack of Patent Cases

By Kevin B. Anderson

During the 2013-2014 term, the U.S. Supreme Court issued an extraordinary six opinions in patent cases. Keep in mind that federal district courts try patent cases, district court judgments are appealed as a matter of right to the U.S. Court of Appeals for the Federal Circuit (aka “the patent court”) and the Supreme Court elects to review certain Federal Circuit appeals as a matter of discretion. Historically, parties have found it difficult to convince the Supreme Court to exercise its discretion and review Federal Circuit patent decisions.

The six decisions addressed a wide variety of issues, including the burden of proof in declaratory judgment actions (*Medtronic, Inc. v. Mirowski Family Ventures, LLC*), attorney fee shifting in exceptional cases (*Octane Fitness, LLC v. ICON Health & Fitness, Inc. and Highmark Inc. v. Allcare Health Management System, Inc.*), indefiniteness (*Nautilus, Inc. v. Biosig Instruments, Inc.*), induced infringement (*Limelight Networks, Inc. v. Akamai Technologies, Inc.*) and patent-eligible subject matter (*Alice Corp. v. CLS Bank International*). The six patent decisions are the most the Supreme Court has ever issued in a single term since the creation of the Federal Circuit in 1982. Because the Supreme Court ultimately rejected the standards established by the Federal Circuit in each of these cases, it is clear both that the Court has taken a greater interest in patent law (reflecting the importance of patents to society) and that there is a growing conflict between the Supreme Court and the Federal Circuit which may continue to dramatically shift the patent landscape. Although the Court is currently scheduled to hear only one patent case for the October 2014 term, *Teva Pharmaceuticals USA, Inc. v. Sandoz, Inc.* (oral argument held on Oct. 15), the Court in *Teva* is addressing a critical issue – the proper standard of review of claim construction by the Federal Circuit which may have a dramatic impact on patent litigation practice.

We understand the importance of vigilantly monitoring changes in the law and understanding how those changes may impact a client’s intellectual property rights. In recognition of that importance, a brief summary of each of the Court’s six patent decisions follows.

A. ***Medtronic, Inc. v. Mirowski Family Ventures, LLC, 134 S. Ct. 843 (Jan. 22, 2014)***. In its first opinion of the 2013-2014 term, the Court addressed the question of which party in a declaratory judgment suit bears the burden of proving patent infringement. Medtronic, a medical device company, entered into a license agreement with Mirowski Family Ventures regarding patents on implantable heart stimulators owned by Mirowski. The license agreement

continued on page 2

Six-Pack of Patent Cases

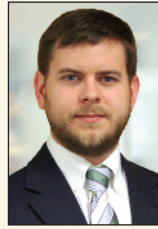
continued from page 1

provided that if Mirowski gave notice to Medtronic that one of Medtronic's new products infringed one of the patents, Medtronic could either simply pay the necessary royalties or deposit the royalties into an escrow account and file an action seeking a declaratory judgment of noninfringement. After a dispute arose between the parties, Medtronic chose the latter option and filed a declaratory judgment action in the U.S. District Court for the District of Delaware.

After Medtronic prevailed before the district court, Mirowski appealed to the Federal Circuit. Mirowski argued that, because Medtronic was the plaintiff in the suit, Medtronic had the burden of proof, not Mirowski. The Federal Circuit agreed, and held that when the patentee is a declaratory judgment defendant and "foreclosed" from asserting an 'infringement counterclaim' by the 'continued existence of a license,'" the burden of proof shifts to the party seeking declaratory judgment of noninfringement (in this case, Medtronic).

The Supreme Court reversed the Federal Circuit, holding that the burden of proving infringement remains with the patentee even in a declaratory judgment action. The Court supported its conclusion by three settled principles. First, "the burden of proving infringement generally rests upon the patentee." Second, "the operation of the Declaratory Judgment Act [is] only procedural, leaving substantive rights unchanged." Third, "the burden of proof is a substantive aspect of a claim."

- B. ***Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749 (April 29, 2014).** Next, the Supreme Court decided a pair of cases (*Octane Fitness* and, discussed below, *Highmark*) addressing the Patent Act's provisions for attorney fee-shifting in "exceptional cases" under 35 U.S.C. § 285. Both decisions were unanimous. Before *Octane Fitness* and since the Federal Circuit's 2005 decision in *Brooks Furniture Mfg., Inc. v. Dutailier Int'l, Inc.* (litigated successfully by Kevin Casey, Stradley's IP Practice Group Chair), a case could be declared "exceptional" in only two circumstances: (1) "when there has been some material inappropriate conduct;" and (2) "when the litigation is both brought in subjective bad faith and objectively baseless." After reviewing the history of awarding attorney's fees in patent cases, the Supreme Court rejected the *Brooks*



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Furniture principle, finding it "unduly rigid" and that it "impermissibly encumbers the statutory grant of discretion to district courts." Rather, the Court defined an "exceptional case" as "simply 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." The Court also held that district courts may determine whether a case meets this definition by exercising their discretion. Finally, the Court rejected the Federal Circuit's requirement that an "exceptional case" be established by clear and convincing evidence, deciding that Section 285 specifies no more than a "discretionary inquiry" and that patent suits have always been decided under a preponderance of the evidence standard.

- C. ***Highmark Inc. v. Allcare Health Mgmt. Sys., Inc.*, 134 S. Ct. 1744 (April 29, 2014).** Having established the new test for "exceptional cases" under 35 U.S.C. § 285 in *Octane Fitness*, the Supreme Court used *Highmark* to change the standard under which appeals of exceptional case decisions by district courts should be reviewed. The Federal Circuit had reviewed exceptional case determinations "de novo," or afresh, because the "objectively baseless prong" of *Brooks Furniture* was "a question of law based on underlying mixed questions of law and fact," and questions of law are reviewed de novo. The Supreme Court determined instead that district courts must decide whether a case is "exceptional" by exercising their discretion; therefore, the Court held that exceptional case decisions should instead be reviewed only for abuse of discretion. The Court ruled that a judge's decision to award attorneys' fees is entitled to deference on appeal, ending the Federal Circuit's practice of reviewing all such awards afresh. Thus, taken in combination, the Supreme Court's *Octane Fitness* and *Highmark* cases make it considerably easier for courts to impose sanctions on plaintiffs who bring meritless patent suits, or on defendants who contest patent suits unreasonably.

continued on page 3

Six-Pack of Patent Cases

continued from page 2

D. *Nautilus, Inc. v. Biosig Instruments, Inc.*, 134 S. Ct. 2120 (June 2, 2014). In *Nautilus*, the U.S. Supreme Court gave powerful ammunition to companies seeking to invalidate patents as being overly vague. The Court unanimously rejected a Federal Circuit standard for proving that a patent is indefinite because it allowed too much ambiguity in patents. The Court rejected the Federal Circuit’s “amenable to construction” and “insolubly ambiguous” standard as insufficient to satisfy the indefiniteness requirement of 35 U.S.C. § 112, 2d paragraph (pre-America Invents Act of 2011). Section 112 requires that a patent “conclude with one or more claims particularly pointing out and distinctly claiming the subject matter which the applicant regards as [the] invention.” The Court replaced the Federal Circuit’s standard with “a patent is invalid for indefiniteness if its claims, read in light of the specification delineating the patent, and the prosecution history, fail to inform, with reasonable certainty, those skilled in the art about the scope of the invention.”

The Court first outlined three general principles governing the indefiniteness analysis. “First, definiteness is to be evaluated from the perspective of someone skilled in the relevant art Second, in assessing definiteness, claims are to be read in light of the patent’s specification and prosecution history Third, definiteness is measured from the viewpoint of a person skilled in the art at the time the patent was filed.” The Court then identified the primary question as the amount of imprecision that can be tolerated by Section 112

According to the Court, Section 112 requires a balance between “the inherent limitations of language” and sufficient precision “to afford clear notice of what is claimed, thereby apprising the public of what is still open to them.” The Court then concluded that the Federal Circuit’s standard fails to satisfy this balance. “It cannot be sufficient that a court can ascribe some meaning to a patent’s claims; the definiteness inquiry trains on the understanding of a skilled artisan at the time of the patent application, not that of a court viewing matters post hoc. To tolerate imprecision just short of that rendering a claim ‘insolubly ambiguous’ would diminish the definiteness requirement’s public-notice function and foster the innovation-discouraging ‘zone of uncertainty’ against which this Court has warned.” Instead, the Court held that Section 112 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.”

E. *Limelight Networks, Inc. v. Akamai Technologies, Inc.*, 134 S. Ct. 2111 (June 2, 2014). In *Limelight*, the U.S. Supreme Court made induced infringement harder to prove. The Court ruled unanimously that induced infringement can be found only when another party directly infringes. In the case, the exclusive licensee of a patent, Akamai, accused Limelight of patent infringement. It was undisputed that Limelight performed only some of the steps of the claimed method, however, while the remaining steps were performed by Limelight’s customers who were not

continued on page 4

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Six-Pack of Patent Cases

continued from page 3

under Limelight's direction or control. Accordingly, in conjunction with Federal Circuit precedent and because no single party performed every step of the claimed method, there was no direct infringement of the patent under 35 U.S.C. § 271(a). Rather, Akamai argued that Limelight was guilty of induced infringement under 35 U.S.C. § 271(b) for performing some of the steps and instructing its customers how to perform the remainder, and the Federal Circuit agreed.

The Supreme Court reversed the decision. The Court first held that there can be no finding of induced infringement under Section 271(b) without a necessary predicate finding of direct infringement – a principle which neither party disputed. The dispute arose about whether direct infringement must arise under Section 271(a). The Federal Circuit's position was that direct infringement could exist independently from Section 271(a). The Supreme Court disagreed, holding that Section 271(b) required a finding of direct infringement under Section 271(a) or some other statutory provision. Otherwise, “[i]f a defendant can be held liable under § 271(b) for inducing conduct that does not constitute infringement, then how can a court assess when a patent holder's rights have been invaded? The decision below [not requiring direct infringement under Section 271(a)] would require courts to develop two parallel bodies of infringement law: one for liability for direct infringement, and one for liability for inducement.”

The Supreme Court further noted that it was “assuming, but not deciding” that the Federal Circuit's rule requiring all steps of a method patent be attributable to a single direct infringer was correct. Although the parties asked the Supreme Court to review this rule, the Court declined to do so. The case was remanded to the Federal Circuit with the opportunity to revisit the issue of divided direct infringement under Section 271(a).

- F. *Alice Corp. v. CLS Bank Int'l*, 134 S. Ct. 2347 (June 19, 2014). In *Alice*, the U.S. Supreme Court issued perhaps its most impactful decision of the 2013-2014 term. The Court addressed the fundamental standard by which patentable subject

matter is determined under 35 U.S.C. § 101, which states “whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent thereof, subject to the conditions and requirements of this title.” The Court held that abstract ideas implemented using a computer are not eligible for a patent, striking down patents on computerized trading methods.

The Court began its analysis by reiterating its “long-held” principle that “laws of nature, natural phenomena, and abstract ideas are not patentable.” The Court clarified, however, that “an invention is not rendered ineligible for patent simply because it involves an abstract concept.” To distinguish patents claiming laws of nature, natural phenomena and abstract ideas from those that are patent-eligible, the Court endorsed the two-step framework established in *Mayo Collaborative Services v. Prometheus Laboratories, Inc.*, in which it must first be determined if the claims are directed to one of those patent-ineligible concepts. If so, then the claims must be examined to determine if they contain an “‘inventive concept’ – i.e., an element or combination of elements that is ‘sufficient to ensure that the patent in practice amounts to significantly more than a patent upon the [ineligible concept] itself.’”

Applying the two-step framework to the patent in question, the Court found that the “concept of intermediated settlement” claimed by Alice Corp. was an abstract idea, noting that it was the same sort of “fundamental economic practice” found unpatentable in *Bilski v. Kappos*. Because the concepts in the patent in question were so similar to those in *Bilski*, the Court declined “to delimit the precise contours of the ‘abstract ideas’ category.” Applying the second step of the framework, the Court concluded that “mere recitation of a generic computer cannot transform a patent-ineligible abstract idea into a patent-eligible invention.” Because the Court determined that “the method claims [of the patent in question], which merely require generic computer implementation, fail to transform that abstract idea into a patent eligible invention,” the Court found the claims patent ineligible under Section 101. ■

IP Client Spotlight

Stradley Ronon's IP group has a long-standing relationship with [Kulicke & Soffa Industries, Inc.](#) (K&S), a global leader in the design and manufacture of semiconductor assembly equipment. K&S is headquartered in Singapore, with R&D facilities in Asia, North America and Europe. The company is the world's leading supplier of wire bonding equipment used in the assembly of semiconductor devices.

Chris Spletzer, a partner in Stradley Ronon's IP group, has been working with K&S on intellectual property issues since 2001. Chris works from K&S' offices one to two days per week. Through direct involvement in



K&S' product development process, Chris is able to secure patent protection for the company's critical inventions. He manages K&S' patent procurement throughout Asia, Europe and the United States and routinely conducts in-person interviews with patent examiners at the U.S. Patent Office to strengthen K&S' patent portfolio. ■

SPEAKING OF . . .



Stradley Ronon Partner **Joe Rossi** gave a presentation to the Heraeus Patent Department in Hanau, Germany. The presentation introduced the European patent attorneys to the various options for challenging patent validity under the America Invents

Act, as well as using such challenges as part of an overall litigation strategy.



Associate **Brian Cocca** gave a presentation to Oncobiologics in Cranbury, New Jersey, on data and market exclusivity for biologic drugs approved by the U.S. FDA through the filing of a biologics licensing application, and for interchangeable

biologic drugs approved by the FDA through the filing of an abbreviated biologics application. Brian also discussed the complex patent litigation scheme for biosimilar molecules as implemented by the Biologics Price Competition and Innovation Act of 2010.

Stradley Ronon IP Chair **Kevin Casey** is working with a university client to establish a technology transfer function. He gave a presentation to the



university's general counsel, technology committee and professors titled "The Importance of Technology Transfer." Research at universities generates groundbreaking inventions that not only save lives, but improve the way

we live, work and play. Technology transfer is the process of transferring scientific findings from one organization (such as a university) to another (such as a company operating a business to which an invention relates) for the purpose of further development and commercialization. The process typically includes: (1) identifying new technologies, (2) protecting technologies through patents and copyrights and (3) forming development and commercialization strategies such as marketing and licensing to existing private sector companies or creating new startup companies based on the technology.

Kevin also provided an "IP Overview" to the IP Law Society at Temple School of Law. The Society comprises law school students interested in intellectual property. Kevin just completed his 20th year teaching IP classes at Temple as an adjunct professor. ■