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WHITE PAPER

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Key Patent Law Decisions of 2014

The U.S. Supreme Court has granted *certiorari* in more and more patent law cases over the last several years and is on pace to hear twice as many patent-law cases this decade as in any decade since the 1982 founding of the Federal Circuit—the exclusive court of appeals for patent cases. During an eventful 2014, both the Supreme Court and the Federal Circuit ruled on a number of significant cases, including the claim-construction standard of review, patentable subject matter, joint and induced infringement, remedies, and other key areas of patent law.

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INTRODUCTION

Since the creation of the United States Court of Appeals for the Federal Circuit almost three decades ago, the number of U.S. Supreme Court cases addressing patent law issues has steadily increased. As the Federal Circuit enters its fourth decade, the Supreme Court is on pace to consider twice as many patent law decisions as in any preceding decade. On its face, it would seem the only pattern behind the Court's decisions is that it continues to overturn the Federal Circuit. But a closer look reveals that the Court is molding this body of law using two distinct philosophies: (i) patent law does not exist in a silo and must conform to the same rules of practice as the rest of federal law, and (ii) rigid, bright-line rules are not faithful to the flexible, "all circumstances" principles underlying the U.S. patent statutory scheme.

This *White Paper* provides an overview of the latest patent law decisions, which show the Supreme Court's two philosophies in action. Following this introduction (Section I), Section II discusses the Supreme Court's interest in patent law, starting from the creation of the Federal Circuit and leading up to the year 2014. Section III summarizes the key decisions of 2014, which cover a wide range of patent law issues, from the standard of review for claim construction to attorneys' fees.

THE SUPREME COURT'S PATENT LAW JURISPRUDENCE

Prior to the year 1982, like all other areas of federal law, patent law decisions were appealed to regional circuit courts of appeals. The various circuit courts had differing attitudes toward patent rights, with some circuits acting generally in a "patent-friendly" manner and others ruling in mostly a "patent-hostile" fashion. This led to a non-uniform body of law, with patent litigation outcome dependent largely on the venue. Thus, one of the goals behind creating the Federal Circuit was fostering uniformity in patent law.

In recent years, the Federal Circuit has been criticized as not being able to fulfill this goal, with conflicting decisions coming out of the different panels of the court, much like the various regional courts in the pre-1982 era. This growing criticism against the Federal Circuit runs concurrently with the Supreme Court's heightened interest in patent law issues in the past decade. Perhaps the most telling statistic demonstrating the Supreme Court's attitude toward patent law is this: In the present decade, the Supreme Court is on pace to double the number of patent law decisions issued in any previous decade. Figure 1 shows how many cases the Supreme Court has considered in each decade since the creation of the Federal Circuit.

Supreme Court Patent Law Decisions by Decade

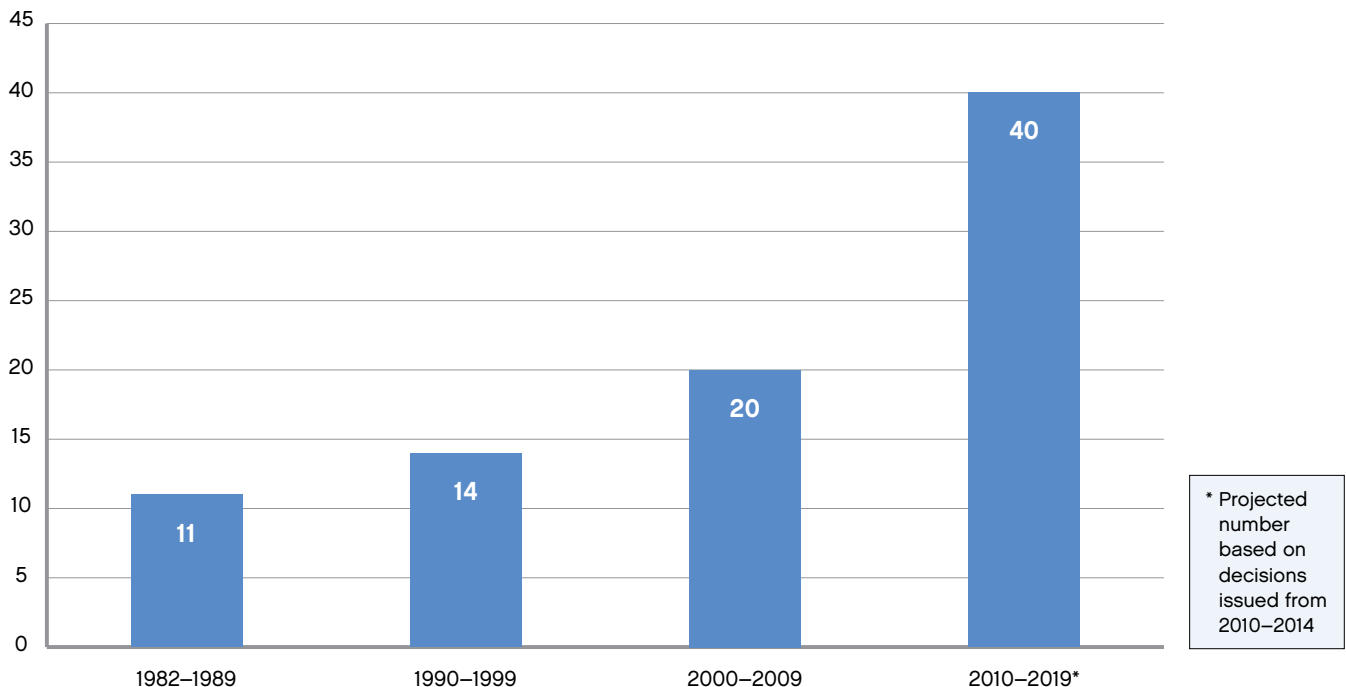


Figure 1: Supreme Court Patent Law Decisions by Decade

The high reversal rate of Federal Circuit decisions by the Supreme Court may be explainable by the latter's two-pronged philosophy to patent law jurisprudence. First, patent cases must conform to the rest of federal law in general. As discussed in Section III, this principle is seen at play in *Teva v. Sandoz*, where the Court altered the Federal Circuit's claim construction standard to bring it into conformity with Federal

Rule of Civil Procedure 56.¹ Second, the Court does not look favorably upon "bright-line" rules promulgated by the Federal Circuit. As with earlier cases, this year, in *Octane Fitness and Highmark*, the Court rejected rigid, "bright-line" rules in favor of case-by-case, "all circumstances" tests to resolve questions of patent law. Figure 2 exhibits some of the cases where the Court acted upon this principle.

Case	Federal Circuit Rule	Supreme Court Decision
<i>eBay</i> (2006)	Injunctions denied only in the "unusual" case, under "exceptional circumstances"	No presumption of irreparable harm in patent cases; <i>standard four-factor test applies</i> in patent cases
<i>KSR</i> (2007)	Obviousness determined through the Teaching-Suggestion-Motivation ("T-S-M") test	No necessary inconsistency between T-S-M test and the <i>Graham</i> analysis, but <i>transforming the general principle into a rigid rule is erroneous</i>
<i>Bilski</i> (2010)	A claimed process is patent eligible if it meets the machine-or-transformation test	Machine-or-transformation test is <i>not the sole test</i> for determining patent eligibility
<i>Octane Fitness</i> (2014)	A case is "exceptional" only in instances of material inappropriate conduct, or when litigation is both brought in subjective bad faith and objectively baseless	An "exceptional" case is simply one that <i>stands out</i> from others with respect to the substantive strength of a party's litigating position
<i>Nautilus</i> (2014)	A claim is indefinite if it is "insolubly ambiguous" or "not amenable to construction"	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 <i>reasonable certainty</i> , those skilled in the art about the scope of the invention

Figure 2: "Bright-Line" Rules Rejected by the Supreme Court

2014: KEY PATENT LAW DECISIONS

Claim Construction Review Standard

In 1996, in *Markman v. Westview Instruments, Inc.*, the Supreme Court held that "the construction of a patent, including terms of art within its claim," is "exclusively" for "the court" to determine.² This was held to be true even where the construction of a term of art has "evidentiary underpinnings."³ However, *Markman* did not address an important question: What is the standard for appellate review of evidentiary determinations that inform a court's construction of a patent term? In *Cybor Corp. v. FAS Technologies, Inc.*, the Federal Circuit announced that it would "review claim construction de novo on appeal including any allegedly fact-based questions relating to claim

construction."⁴ In 2014, this standard of review was reconsidered by both the Federal Circuit and the Supreme Court.

Lighting Ballast Control LLC v. Philips Elec. N. Am. Corp.

In *Lighting Ballast*, the en banc Federal Circuit considered whether it should overrule *Cybor* and alter the standard of review for claim construction.⁵ Applying *stare decisis*, the Federal Circuit confirmed the *Cybor* standard of *de novo* review for claim construction.

After fifteen years of experience with *Cybor*, we conclude that the court should retain plenary review of claim construction, thereby providing national uniformity, consistency, and finality to the meaning and

scope of patent claims. The totality of experience has confirmed that *Cybor* is an effective implementation of *Markman*, and that the criteria for departure from *stare decisis* are not met.⁶

The majority opinion identified three distinct positions on the proper standard of review: (i) that *Cybor* should be overruled as it contradicts Federal Rule of Civil Procedure 52(a)(6)⁷; (ii) that a mixed or hybrid review of claim construction on appeal is appropriate⁸; and (iii) that *Cybor* was correctly decided and claim construction should be subject to *de novo* review.⁹ Relying on the doctrine of *stare decisis*, the Federal Circuit took the third position because, according to the court, there was no compelling justification to overturn the *Cybor* precedent.¹⁰ However, this decision did not stand for long, as the Supreme Court granted certiorari in *Teva v. Sandoz* on the same issue soon after the Federal Circuit issued its *en banc* *Lighting Ballast* decision.

Teva Pharmaceuticals USA, Inc. v. Sandoz, Inc.

Teva Pharmaceuticals owned a patent on a multiple sclerosis drug, and Sandoz attempted to market a generic version.¹¹ In response to Teva's suit for infringement, Sandoz argued that the patent was invalid because it was indefinite; the claim at issue used the term "molecular weight," which Sandoz contended was ambiguous. After hearing testimony from experts, the district court ruled for Teva. The Federal Circuit reversed, applying *de novo* review to the construction of the claim term "molecular weight."

In a 7–2 opinion, the Supreme Court vacated the Federal Circuit's decision. Relying on Federal Rule of Civil Procedure 52 and *Markman*, it held that the Federal Circuit should review fact-finding in claim construction as in any other case, taking such findings as correct unless they are clearly erroneous¹²:

When describing claim construction [in *Markman*] we concluded that it was proper to treat the ultimate question of the proper construction of the patent as a question of law in the way that we treat document construction as a question of law. But this does not imply an exception to Rule 52(a) for underlying factual disputes.¹³

Rule 52(a)(6) states that a court of appeals must not reject a district court's factual findings unless they are clearly

erroneous. The Court explained that because Rule 52 does not "exclude certain categories of factual findings," patent cases are not to be treated differently.¹⁴ Deviating from the rule, noted the Court, "would tend to undermine the legitimacy of the district courts" while contributing "only negligibly" to accuracy.¹⁵

Patentable Subject Matter (35 U.S.C. § 101)

Section 101 establishes four clear categories of inventions eligible for a patent: "process, machine, manufacture, or composition of matter."¹⁶ While these categories encompass "anything under the sun that is made by man[.]"¹⁷ the Supreme Court has limited the scope of Section 101 using judicially created exceptions to the categories—laws of nature, physical phenomena, and abstract ideas. In recent years, the Court has narrowed Section 101 considerably using these exceptions. Starting with *Bilski v. Kappos* in 2010, the Court expressly recognized that "business methods" are not per se excluded from the scope of Section 101.¹⁸ The Court also found that the claims at issue, directed to a method of optimizing a fixed-bill system for energy markets, were invalid because they claimed an abstract idea.¹⁹ In doing so, the Court rejected the Federal Circuit's "machine-or-transformation" test as the sole determinative query for patent eligibility.²⁰ In light of the *Bilski* decision, in 2012 the Court considered *Mayo Collaborative Services v. Prometheus Labs., Inc.*, addressing claims directed to a method of giving a drug to a patient, measuring metabolites of the drug in the patient's blood, and—based on those results—increasing or decreasing the dosage of the drug.²¹ The Court found that the claims covered a well-known "law of nature," which was not patent-eligible.²² Finally, in light of *Mayo*, in 2013 the Court considered *Association for Molecular Pathology v. Myriad Genetics, Inc.*, analyzing claims directed to isolated DNA sequences.²³ In *Myriad*, the Court held that isolated DNA molecules were patent-ineligible "products of nature," but that isolated DNA molecules (the same molecules, but with the non-coding regions removed) were eligible for patenting.²⁴ Against this backdrop, in 2014, two notable decisions further construed Section 101.

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

Alice's patented method called for using a third party, or clearinghouse, to keep track of financial transactions between two parties and then to instruct another institution to adjust the two parties' accounts accordingly at the end of the day.²⁵ The purpose of this patent was to address the risk that one party might not complete a deal after the other side had already

fulfilled its end of the bargain.²⁶ Alice patented any computer implementation of this process as well as any computer systems containing program code that could carry out the method.²⁷ A unanimous Court invalidated the patents because they claimed abstract ideas in violation of Section 101, noting:

Like the risk hedging in *Bilski*, the concept of intermediated settlement is “a fundamental economic practice long prevalent in our system of commerce,” and the use of a third-party intermediary (or “clearing house”) is a building block of the modern economy. Thus, intermediated settlement, like hedging, is an “abstract idea” beyond § 101’s scope.²⁸

Applying its recent precedent in *Bilski*, the Court found that there was no meaningful distinction between the invalid method of hedging risk in *Bilski* and the claims at issue.²⁹ Citing *Mayo*, the Court found that “mere recitation of a generic computer cannot transform a patent-ineligible abstract idea into a patent-eligible invention. Stating an abstract idea while adding the words ‘apply it’ is not enough for patent eligibility.”³⁰ Finally, citing *Mayo* and *Myriad*, the Court noted:

There is no dispute that a computer is a tangible system (in § 101 terms, a “machine”), or that many computer-implemented claims are formally addressed to patent-eligible subject matter. But if that were the end of the § 101 inquiry, an applicant could claim any principle of the physical or social sciences by reciting a computer system configured to implement the relevant concept. Such a result would make the determination of patent eligibility “depend simply on the draftsman’s art, thereby eviscerating the rule that “[l]aws of nature, natural phenomena, and abstract ideas are not patentable.”³¹

In re Roslin Inst.

In 1996, Campbell and Wilmut successfully cloned a mammal, famously dubbed “Dolly the Sheep.” The cloning method used to create Dolly—somatic cell nuclear transfer—was a breakthrough in the scientific world.³² The resulting cloned mammal is an exact genetic replica of the mammal that donated the genetic material for cloning.³³ This method was claimed in United States Patent No. 7,514,258, assigned to the Roslin Institute.³⁴

In addition to the method patent, the inventors of somatic cell nuclear transfer also filed a patent application (the ‘233 application) claiming the clones produced by the method. Claim 155 of this application is representative:

155. A live-born clone of a pre-existing non-embryonic, donor mammal, wherein the mammal is selected from cattle, sheep, pigs and goats.³⁵

During prosecution of the ‘233 application, the Patent and Trial Appeals Board (“PTAB”) held that under Supreme Court precedent, the cloned animals were “products of nature” and unpatentable subject matter. The Roslin Institute appealed the decision.

The Federal Circuit affirmed the Board’s rejections. Recounting *Funk Bros.*,³⁶ *Chakrabarty*,³⁷ and *Myriad*,³⁸ the Federal Circuit noted that discoveries that possess “markedly different characteristics from any found in nature” are eligible for patent protection, but patents cannot be issued for products of nature under Section 101. Although the Roslin Institute argued that the clones were eligible for patent protection because they were “the product of human ingenuity” and not nature’s handiwork, the court noted that the clones were exact replicas of donor animals and did not possess “markedly different characteristics from any found in nature.” Thus, the Federal Circuit found that because the clones were genetically identical to their donor parents, they were therefore not patent-eligible under § 101.

Joint and Induced Infringement

Another important issue decided during 2014 was the proper construction of 35 U.S.C. § 271(b), the statute regarding induced infringement. The text of the statute simply states, “[w]hoever actively induces infringement of a patent shall be liable as an infringer.”³⁹ The following two decisions from 2014 expounded on the meaning of this text.

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

Akamai Technologies owned an exclusive licensee to the patent-at-issue, directed to methods of delivering electronic data using a content delivery network (“CDN”).⁴⁰ Limelight also operated a CDN and carried out several of the steps claimed in Akamai’s patent, but one step, known as “tagging,” was performed by Limelight’s customers.⁴¹ Akamai sued

Limelight for patent infringement. Liability for direct infringement requires that performance of all steps of a method patent be attributable to a single party under Federal Circuit case law. Therefore, the district court concluded that Limelight could not have directly infringed the patent-at-issue because performance of the tagging step could not be attributed to Limelight.⁴² After an initial panel decision affirming the decision, the Federal Circuit reversed *en banc*, holding that a defendant who encouraged others to perform only some of the steps of a method patent could be liable for inducement of infringement under Section 271(b), even if no one entity was liable for direct infringement under Section 271(a).⁴³ Limelight appealed the *en banc* decision to the Supreme Court.⁴⁴

The Supreme Court held that liability for inducement of infringement must be based on underlying direct infringement.⁴⁵ Accordingly, because the performance of all the steps of the method patent at issue was not attributable to any one person, the patent was not infringed.⁴⁶ The Court noted that the Federal Circuit's contrary view would deprive Section 271(b) of ascertainable standards, noting:

If a defendant can be held liable under §271(b) for inducing conduct that does not constitute infringement, then how can a court assess when a patent holder's rights have been invaded? What if a defendant pays another to perform just one step of a 12-step process, and no one performs the other steps, but that one step can be viewed as the most important step in the process? In that case the defendant has not encouraged infringement, but no principled reason prevents him from being held liable for inducement under the Federal Circuit's reasoning, which permits inducement liability when fewer than all of a method's steps have been performed within the meaning of the patent. The decision below would require the courts to develop two parallel bodies of infringement law: one for liability for direct infringement, and one for liability for inducement.⁴⁷

The Court declined to consider whether the Federal Circuit's interpretation of Section 271(a) in *Muniauction, Inc. v. Thomson Corp.*, 532 F.3d 1318—that there can be no direct infringement unless all the steps of a method are performed by a single entity—is correct.⁴⁸

Commil USA, LLC v. Cisco Sys.

Commil owned a patent directed to methods of providing mobile devices with reliable transfers from one base station to another.⁴⁹ Commil alleged that certain Cisco access points and controllers infringed the claims of its patent. At the initial trial, the jury found Cisco liable only for direct infringement, and the district court granted Commil's motion for a new trial on induced infringement and damages.⁵⁰ During the second trial, the jury held Cisco liable for induced infringement.⁵¹ Cisco appealed, arguing that the jury instruction on inducement was erroneous in light of recent Supreme Court precedent, because it resulted in a finding of inducement based on mere negligence.⁵² Cisco also argued that exclusion of its evidence of good-faith belief of invalidity was erroneous.⁵³

The Federal Circuit found that the jury instruction on induced infringement was erroneous as a matter of law.⁵⁴ According to the court, under *Global-Tech Appliances, Inc. v. SEB S.A.*, 131 S. Ct. 2060 (2011), induced infringement requires knowledge that the induced acts constitute patent infringement.⁵⁵ The knowledge requirement is satisfied by a showing of actual knowledge or willful blindness, not—as the district court had found—by negligence or recklessness.⁵⁶

The Federal Circuit also found “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.”⁵⁷ Therefore, the court held that evidence of good-faith belief of invalidity should be considered in making an inducement determination.⁵⁸ On December 5, 2014, the Supreme Court granted Commil's petition for writ of *certiorari*. The case will be argued March 31, 2015, and the Supreme Court should issue its decision before the end of June 2015.

Indefiniteness

Nautilus, Inc. v. Biosig Instrs.

In *Nautilus*, the Supreme Court announced the standard for when a patent will fail for indefiniteness.⁵⁹ The case arose from a patent dispute involving heart rate monitors used in exercise equipment. Biosig, the assignee of the patent, sued Nautilus for selling exercise machines that allegedly incorporated their heart rate monitors.⁶⁰ The claim-at-issue contained the term “in spaced relationship with each other,” and Nautilus challenged this term as indefinite.⁶¹ The district court granted

summary judgment to *Nautilus*, and *Biosig* appealed this ruling to the Federal Circuit.⁶² Applying its indefiniteness test, which asked whether a term was “amenable to construction” or “insolubly ambiguous[,]” the Federal Circuit found that the term was not indefinite.⁶³

The Supreme Court took issue with the Federal Circuit’s standard, stating that it “tolerates some ambiguous claims and not others.”⁶⁴ The Court noted:

[A]lthough this Court does not “‘micromanag[e] the Federal Circuit’s particular word choice’ in applying patent-law doctrines, we must ensure that the Federal Circuit’s test is at least ‘probative of the essential inquiry.’” Falling short in that regard, the expressions “insolubly ambiguous” and “amenable to construction” permeate the Federal Circuit’s recent decisions concerning §112, ¶2’s requirement. We agree with *Nautilus* and its *amici* that such terminology can leave courts and the patent bar at sea without a reliable compass.⁶⁵

The Court unanimously held that a patent is invalid for indefiniteness “if its claims, read in light of the specification delineating the patent, and the prosecution history, fail to inform, with reasonable certainty, those skilled in the art about the scope of the invention.”⁶⁶ This standard, the Court explained, acknowledges the need for patent claims to be clear without requiring absolute precision, which it recognized is unattainable.⁶⁷

The Court did not illustrate its own standard by applying it to the facts at issue.⁶⁸ Characterizing the Federal Circuit’s standard as “more amorphous than the statutory definiteness requirement allows[,]” the Court remanded the case for the Court of Appeals to reconsider its decision under the proper standard.⁶⁹ The Federal Court heard argument on remand on October 29, 2014, but has not yet rendered a decision.

Remedies

Two notable decisions from 2014 considered patent law remedies, specifically injunctions (*ePlus*) and damages for standard-essential patents (“SEPs”) (*Ericsson*).

ePlus, Inc. v. Lawson Software, Inc.

ePlus, the assignee of two patents pertaining to methods and systems of electronic sourcing, sued *Lawson* for infringement

of those patents.⁷⁰ The district court found the asserted claims were valid, and the jury found *Lawson* liable for infringement.⁷¹ In light of the infringement verdict, the district court entered a permanent injunction against *Lawson*.⁷² On appeal, the Federal Circuit reversed-in-part, finding the system claims invalid and affirming the infringement verdict as to only one of the method claims.⁷³ The Federal Circuit remanded the case for the district court to modify the injunction.⁷⁴

On remand, the district court found *Lawson* in contempt for violation of the injunction and imposed significant fines.⁷⁵ *Lawson* appealed to the Federal Circuit.⁷⁶ While this appeal was pending, the United States Patent and Trademark Office (“PTO”) cancelled the only surviving claim of the patent in an *ex parte* reexamination.⁷⁷ The Federal Circuit found that injunctions for patent infringement must be set aside when the underlying claims are later found to be invalid, reasoning:

There is no longer any legal basis to enjoin *Lawson*’s conduct based on rights that [the cancelled claim] patent previously conferred as those rights have ceased to exist. The PTO found [the claim] invalid, we affirmed that decision, our mandate issued, and the PTO cancelled the claim. [The claim] no longer confers any rights that support an injunction against infringement. During oral argument, *ePlus* even admitted that there could be no injunction moving forward. The PTO’s cancellation of [the claim] requires that we now vacate the injunction.⁷⁸

As to the contempt finding, the Federal Circuit held that the contempt violation cannot stand if the underlying injunction is no longer applicable.⁷⁹ Further, the Federal Circuit noted that “[t]his case is not distinguishable on the ground that the injunction has been set aside as the result of the PTO proceeding rather than a court judgment.”⁸⁰

Ericsson, Inc. v. D-Link Sys.

Ericsson sued *D-Link* for alleged infringement of three of its SEPs directed to a common Wi-Fi standard. The district court denied *D-Link*’s request for a jury instruction on *Ericsson*’s obligation to license the patents on Reasonable and Non-Discriminatory (“RAND”) terms.⁸¹ Instead, the district court added a 16th factor to the 15 *Georgia-Pacific* factors (used for calculation of royalties), which stated that the jury “may

consider Ericsson's obligation to license its technology on RAND terms."⁸² The jury found that D-Link infringed the claims and awarded \$10 million in damages to Ericsson. D-Link appealed the district court's jury instructions.⁸³

After noting that the issue was a matter of first impression and that it had never considered RAND royalty rates before, the Federal Circuit held that the district court erred in including all 15 *Georgia-Pacific* factors in the jury instruction.⁸⁴ The court reasoned that some of these factors are irrelevant to the obligation to license on RAND terms.⁸⁵ The court also found that the district court erred in allowing the jury to consider Ericsson's RAND obligation.⁸⁶ Ericsson's promise to license the patents at RAND rates, ruled the court, required a jury instruction that it is obligatory, not just optional, to take RAND commitments into account when determining the royalty rate.⁸⁷ However, the Federal Circuit declined to create a bright-line rule for all RAND cases.⁸⁸

Attorneys' Fees

Under 35 U.S.C. § 285, a "court in exceptional cases may award reasonable attorney fees to the prevailing party."⁸⁹ The Supreme Court clarified what constitutes an "exceptional case" in two decisions announced concurrently in 2014.

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

Icon Health sued Octane Fitness for allegedly infringing a patent for an elliptical exercise machine.⁹⁰ Octane Fitness was successful in its summary judgment motion in this case and moved for attorneys' fees under 35 U.S.C. § 285, which allows district courts to award attorneys' fees in "exceptional cases."⁹¹ The district court denied Octane's motion for attorneys' fees under the Federal Circuit's decision in *Brooks Furniture Mfg., Inc. v. Dutailier Int'l Inc.*, 393 F.3d 1378 (Fed. Cir. 2005), which defined "an exceptional case" as one that either involves "material inappropriate conduct" or is both (i) subjectively baseless and (ii) brought in subjective bad faith. It also required that parties establish such a case by "clear and convincing evidence."⁹² The district court found that Icon Health's claim was neither objectively baseless nor brought in subjective bad faith.⁹³ The Federal Circuit affirmed, declining to "revisit the settled standard for exceptionality."⁹⁴ The Supreme Court granted *certiorari*.

The Supreme Court found that because the Patent Act does not define the word "exceptional," the term is construed

in accordance with its ordinary meaning. The Court noted that exceptional means "uncommon," "rare," or "not ordinary."⁹⁵ Further, entitlement to attorneys' fees should be assessed under a preponderance of the evidence standard.⁹⁶ Accordingly, in the Court's view, the Federal Circuit's *Brooks Furniture* framework superimposes an inflexible framework onto statutory text and unduly encumbers the statutory grant of discretion to district courts.

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. As in the comparable context of the Copyright Act, "[t]here is no precise rule or formula for making these determinations," but instead equitable discretion should be exercised "in light of the considerations we have identified."⁹⁷

Highmark Inc. v. Allcare Health Mgmt. Sys's. Inc.

Highmark, Inc., a health insurance company, sued Allcare Health Management Systems, seeking a declaratory judgment that one of Allcare's patents was invalid and unenforceable, or in the alternative, that Highmark was not infringing the patent.⁹⁸ The district court granted Highmark's motion for summary judgment of noninfringement.⁹⁹ Highmark then moved for fees under Section 285, and the district court granted the motion, reasoning that Allcare had engaged in a pattern of "vexatious" and "deceitful" conduct throughout the litigation.¹⁰⁰ The Federal Circuit affirmed-in-part and reversed-in-part, agreeing with the district court's "exceptional case" determination with respect to one claim of the patent-at-issue, but not with respect to a second claim.¹⁰¹ The Federal Circuit reviewed the district court's determination *de novo*. The Supreme Court granted *certiorari*.

Relying on its just-announced decision in *Octane Fitness*, the Court held that the *Brooks Furniture* framework was unduly rigid and inconsistent with the text of the Patent Act.¹⁰² Further, the Court noted that because the determination of "exceptional" is a matter of discretion, it is to be reviewed only for

abuse of discretion.¹⁰³ The case was remanded for further proceedings consistent with the Court's opinion.¹⁰⁴

The *Octane Fitness and Highmark* opinions were both authored by Justice Sotomayor. These opinions show that the Court continues to dismiss rigid tests followed by the Federal Circuit.

CONCLUSION

The cases discussed in this paper have reshaped several previously settled standards and will likely affect patent litigation in a variety of ways. For example, *Teva* may motivate litigants to shore up potentially favorable claim construction decisions with extrinsic evidence in the form of expert testimony regarding claim language. The same trend may follow *Nautilus*, where the lowered threshold for finding a claim indefinite will likely expand the opportunity to assert viable Section 112 defenses. Together, these decisions have the potential to increase the cost of patent litigation. Additionally, after *Limelight*, patentees will likely find it more difficult to prove induced infringement of patents requiring completion of certain steps by a third party, thus limiting patentees' ability to hold upstream entities liable for the independent acts of downstream third parties. Further, although *Octane Fitness and Highmark* may deter some ill-conceived suits by nonpracticing entities, according to these decisions, fee-shifting will not be available in all cases. As of now lower courts do not have much guidance on what constitutes an "exceptional" case, leaving an area of uncertainty.

In addition to changes in the way intellectual property rights are asserted, the decisions issued during 2014 also affect patent prosecution. For example, in the four months following *Alice*, 14 federal court rulings invalidated patent claims in relying on *Alice*.¹⁰⁵ After *Alice*, the validity of many business-method patents is in question, and patentees will have to reevaluate claims directed to computer-implemented processes. Similarly, after *Nautilus*, claim drafters will have to strike a precise balance between claiming inventions with reasonable certainty and claiming as much subject matter as is possible within the confines of the patent disclosure. With petitions for writ of *certiorari* pending in several cases, it is clear that patent law will continue to evolve for the foreseeable future.

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ENDNOTES

- 1 See *Teva Pharms. USA, Inc. v. Sandoz, Inc.*, 135 S. Ct. 831, --- (2015).
- 2 *Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 372. (1996).
- 3 *Id.* at 390.
- 4 *Cybor Corp. v. FAS Technologies, Inc.*, 138 F.3d 1448, 1451 (Fed. Cir. 1998) (*en banc*).
- 5 *Lighting Ballast Control LLC v. Philips Elec. N. Am. Corp.*, 744 F.3d 1272 (Fed. Cir. 2014) (*en banc*).
- 6 *Id.* at 1277.
- 7 *Id.* at 1277-78.
- 8 *Id.* at 1278-79.
- 9 *Id.* at 1279-80.
- 10 *Id.*
- 11 *Teva Pharms. USA, Inc. v. Sandoz, Inc.*, 135 S. Ct. 831, --- (2015).
- 12 *Id.* slip op. at 1.
- 13 *Id.* at 5.
- 14 *Id.* (quoting *Pullman-Standard v. Swint*, 456 U. S. 273, 287 (1982)) (internal quotation marks omitted).
- 15 *Id.* at 4-5.
- 16 See 35 U.S.C. § 101 (2012).
- 17 *Diamond v. Chakrabarty*, 447 U.S. 303, 309 (1980).
- 18 *Bilksi v. Kappos*, 561 U.S. 593, 604 (2010).
- 19 *Id.* at 597.
- 20 *Id.* at 599-600.
- 21 *Mayo Collaborative Services v. Prometheus Labs., Inc.* 132 S. Ct. 1289 (2012).
- 22 *Id.*
- 23 *Ass'n for Molecular Pathology v. Myriad Genetics, Inc.*, 133 S. Ct. 2107 (2013). One of the authors was counsel for Myriad Genetics in this case.
- 24 *Id.*
- 25 *Alice Corp. Pty. Ltd. v. CLS Bank Int'l.*, 134 S. Ct. 2347 (2014).
- 26 *Id.* at 2350.
- 27 *Id.*
- 28 *Id.* (internal citations omitted).
- 29 *Id.* at 2356.
- 30 *Id.* at 2358.
- 31 *Id.* at 2358-59 (internal citations omitted).
- 32 *In re Roslin Inst.*, 750 F.3d 1333, 1340 (Fed. Cir. 2014).
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- 34 *Id.*
- 35 *Id.*
- 36 *Funk Bros. Seed Co. v. Kalo Inoculant Co.*, 333 U.S. 127 (1948).
- 37 *Diamond v. Chakrabarty*, 447 U.S. 303 (1980).
- 38 *Ass'n for Molecular Pathology v. Myriad Genetics, Inc.*, 133 S. Ct. 2107 (2013).
- 39 35 U.S.C. § 271 (b).
- 40 *Limelight Networks, Inc. v. Akamai Techs., Inc.*, 134 S. Ct. 2111, 2114 (2014).
- 41 *Id.*
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- 43 629 F. 3d 1311, 1321 (Fed. Cir. 2010).
- 44 *Limelight*, 134 S. Ct. at 2116.
- 45 *Id.*
- 46 *Id.*
- 47 *Id.* at 2117-18.
- 48 *Id.* at 2120.
- 49 *Commil USA, LLC v. Cisco Sys.*, 720 F.3d 1361, 1365 (Fed. Cir. 2013).
- 50 *Id.*
- 51 *Id.* at 1366.
- 52 *Id.*
- 53 *Id.*
- 54 *Id.* at 1367.
- 55 *Commil*, 720 F.3d at 1367.
- 56 *Id.*
- 57 *Id.* at 1368.
- 58 *Id.* at 1368-69.
- 59 *Nautilus, Inc. v. Biosig Instrs., Inc.*, 134 S. Ct. 2120 (2014).
- 60 *Id.*
- 61 *Id.* at 2124.
- 62 *Id.*
- 63 *Id.*
- 64 *Id.*
- 65 *Id.* (quoting *Warner-Jenkinson Co. v. Hilton Davis Chemical Co.*, 520 U.S. 17, 40 (1997)).
- 66 *Id.* at 2124.
- 67 *Id.* at 2129.
- 68 *Id.*
- 69 *Id.* at 2131.
- 70 *ePlus, Inc. v. Lawson Software, Inc.*, 760 F.3d 1350, 1352 (Fed. Cir. 2014).

- 71 *Id.*
- 72 *Id.*
- 73 *Id.* at 1353.
- 74 *Id.*
- 75 *ePlus*, 760 F.3d at 1360.
- 76 *Id.* at 1356.
- 77 *Id.*
- 78 *Id.* at 1356-57.
- 79 *Id.*
- 80 *Id.* at 1358-59.
- 81 *Ericsson, Inc. v. D-Link Sys.*, 773 F.3d 1201, 1213 (Fed. Cir. 2014).
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- 83 *Id.* at 1214.
- 84 *Id.* at 1230.
- 85 *Id.*
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- 87 *Id.* at 1235.
- 88 *Id.* at 1232.
- 89 35 U.S.C. § 285 (2012).
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- 94 *Id.*
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- 98 *Highmark Inc. v. Allcare Health Mgmt. Sys's, Inc.*, 134 S. Ct. 1744, 1747 (2014).
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- 105 B. McCall, "Lessons from 4 Months of Post-Alice Decisions," LAW360, Oct. 31, 2014, available at <http://www.law360.com/articles/590465/lessons-from-4-months-of-post-alice-decisions>.

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