This installment marks the sixth anniversary of Ropes & Gray’s U.S. Patent Law Year-In-Review article for Bloomberg BNA. In this article, as in past installments, the authors strive to provide a succinct summary of a number of key developments in U.S. patent jurisprudence.


BY HIROYUKI HAGIWARA, HAN XU AND RODRIGO VALLE

The Supreme Court was busy again hearing arguments and deciding several patent cases this year. Surprisingly, the Court, often divided on more political questions, decided all of the 2014 patent cases in unanimous decisions.1 The decisions were likely decided in an effort to clarify certain otherwise muddy areas of patent law:

- **Octane Fitness v. ICON Health & Fitness**: 9-0 reversal of Federal Circuit’s ruling and precedent;
- **Highmark v. Allcare Health**: 9-0 unanimous decision vacating and remanding the Federal Circuit’s opinion;
- **Alice Corp. v. CLS Bank**: 9-0 unanimous decision affirming the Federal Circuit’s widely fractured (seven separate opinions) ruling;

---

The patents at issue relate to a computer-implemented scheme for mitigating “settlement risk” by using a third-party intermediary. The intermediary creates “shadow” credit and debit records to mirror the balances in the parties’ real-world accounts at “exchange institutions.” The Court “conclude[d] that the method claims, which merely require generic computer implementation, fail to transform that abstract idea into a patent-eligible invention.” Further, “[t]he method claims do not, for example, purport to improve the functioning of the computer itself.” Similarly, based partially on petitioner’s concession that the media claims rise or fall with its method claims, Justice Thomas concluded that “none of the hardware recited by the system claims offers a meaningful limitation beyond generally linking the use of the [method] to a particular technological environment, that is, implementation via computers.” Justice Sotomayor wrote a brief concurring opinion, stating that “[I] adhere to the view that any ‘claim that merely describes a method of doing business does not qualify as a ‘process’ under § 101.’”

The consistent applications of the methodology developed in Mayo v. Prometheus and the “abstract idea” category defined in Bilski v. Kappos are important steps toward a concrete understanding of the future of Section 101. Section 101 remains an important section of the Patent Act in courts. The following is a subset of recent and important cases related to Section 101.

- **DDR Holdings, LLC v. Hotels.com, L.P.**: holding patent-eligible “systems and methods of generating a composite web page that combines certain visual elements of a “host” website with content of a third-party merchant,” because they do not broadly and generically claim “use of the Internet” to perform an abstract business practice (with insignificant added activity);

- **In re Roslin Inst.**: finding cloned animals not subject matter eligible, even where the clone is distinguishable from the donor mammal;

- **SmartGene v. Advanced Biological Labs., SA**: holding not patentable claims directed to guiding the selection of a therapeutic treatment;

- **I/P Engine, Inc. v. AOL Inc.**: (in a concurring opinion by Judge Mayer applying Alice analysis) stating that the method for filtering Internet search results utilizing content-based and collaborative filtering were patent-ineligible because they simply “recite the use of a generic computer to implement a well-known and widely practiced technique for organizing information.”

---


5. Alice Corp., 82 L. Ed. 2d at 305 (citations omitted).

6. Id. (citations omitted).


8. Alice Corp., 82 L. Ed. 2d at 307.
The Supreme Court heard joint arguments in two cases involving the award of attorneys’ fees to the prevailing party: Octane Fitness v. ICON Health & Fitness\(^{25}\) and Highmark v. Allcare Health.\(^{24}\) In sum, the Court overturned the Federal Circuit’s exceptional case test and applied the abuse of discretion standard of review for exceptional case determinations under Section 285.

Section 285 of the Patent Act provides that “[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party.”\(^{23}\) This has become an important and commonly-argued section of the Patent Act recently in the effort to combat patent trolls (non-practicing entities) from filing suit on broad claims. Prior to the Supreme Court’s rulings, Brooks Furniture established the Federal Circuit’s standard for exceptional cases under Section 285: “when there has been some material inappropriate conduct,” or when the litigation is “brought in subjective bad faith” and “objectively baseless.”\(^{26}\)

In Octane Fitness, the Court rejected the framework in Brooks Furniture, stating that it is “unduly rigid, and it impermissibly encumbers the statutory grant of discretion to district courts.”\(^{27}\) Justice Sonia Sotomayor defined an “exceptional” case as “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.”\(^{28}\) Furthermore, instead of creating a rigid test, the Court granted district courts significant discretion: “District courts may determine whether a case is ‘exceptional’ in the case-by-case exercise of their discretion, considering the totality of the circumstances.”\(^{29}\) The Court did not provide any guidance or specific framework, but suggested in a footnote that a “nonexclusive list of factors, including frivolousness, motivation, objective unreasonableness . . . and the need in particular circumstances to advance considerations of compensation and deterrence”\(^{30}\) may be relevant. Importantly, footnote 6 provides deterrence as a justification for providing attorneys’ fees. In the current landscape, in which courts are attempting to curb frivolous patent troll lawsuits, deterrence may be the necessary factor for reducing these types of lawsuits.

The Court expressly rejected the Brooks Furniture framework as too rigid and too high of a standard. The Court stated the Brooks Furniture framework “is so demanding that it would appear to render § 285 largely superfluous. We have long recognized a common-law exception to the general ‘American rule’ against fee shifting—an exception, inherent in the power [of] the courts that applies for willful disobedience of a court order or when the losing party has acted in bad faith vexatiously, wantonly, or for oppressive reasons . . . .”\(^{31}\)

Lastly, the Court rejected the “clear and convincing evidence” standard in Brooks Furniture, stating, “We
have not interpreted comparable fee-shifting statutes to require proof of entitlement to fees by clear and convincing evidence.”32

In the second fee shifting case, Highmark v. Allcare Health, the Court determined that the proper standard for review is “abuse of discretion” for Section 285 exceptional case determinations. At the Federal Circuit below, the court affirmed-in-part and reversed-in-part, but importantly, reviewed the exceptional-case determination de novo. The Federal Circuit reviewed the “objectively baseless” determination de novo, based on the framework established in Brooks Furniture, because the inquiry “is a question of law based on underlying mixed questions of law and fact.”33 In dissent, Judge Mayer stated that “reasonableness is a finding of fact which maybe set aside only for clear error.”34

The Supreme Court vacated the opinion below, stating that Octane Fitness settles the case. Since discretion is afforded to district courts post-Octane Fitness, the correct standard of review is “abuse of discretion.”

As a result of a lower and less rigid framework, the use of Section 285 may become an even more popular method of curbing unreasonable or flagrant lawsuits.

**Deferece Is on the Defense —OR— No Deferral for Deference**


The Federal Circuit’s 7-4 opinion in Lighting Ballast affirmed the de novo standard of review based primarily on stare decisis. Judge Newman, writing for the majority, stated that “[a]fter 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.”37 Judge Newman illustrates the three viewpoints urged by the parties and the amici: Cybor should be entirely discarded and claim construction is “essentially factual [in nature].”38 The factual aspects of claim construction shall be reviewed on the clearly erroneous standard, while the final conclusion receives review as a matter of law;39 Cybor is correct and claim construction is a “purely legal matter and that the interpretation of a so-called patent claim . . . is a matter of law.”40 The majority affirmed the Cybor de novo standard, stating that “we are not persuaded that discarding de novo review would produce a better or more reliable or more accurate or more just determination of patent claim scope.”41

Judge Lorie, concurring in the result, agreed with the stare decisis grounds, yet added additional justification for affirming Cybor.

Judge O’Malley, in dissent, argued that “experience has shown us . . . [that] construing the claims of a patent at times requires district courts to resolve questions of fact” and the majority’s holding “puts itself at odds with binding congressional and Supreme Court authority . . . .”42 Judge O’Malley wrote that even Markman labeled claim construction as a “mongrel practice” and “suggested that construing a patent’s claims ‘falls somewhere between a pristine legal standard and a simple historical fact,’”43 among other justifications.

The Supreme Court made a significant change regarding the issue of deference by holding, in a 7-2 decision, that an appellate court must apply a “clear error” standard when reviewing a trial court’s resolution of subsidiary factual disputes in claim construction. Teva Pharmaceuticals’ challenge to the standard of review for claim construction relied on Federal Rules of Civil Procedure 52(a), which provides inter alia that a court of appeals “must not . . . set aside” a district court’s “[f]indings of fact” unless they are “clearly erroneous.”

The Supreme Court majority sided with Teva, noting that its prior decision in Markman v. Westview44 did not create an exception to Rule 52(a).45 The majority explained that while in Markman, the Supreme Court concluded that “the ultimate issue of the proper construction of a claim should be treated as a question of law[,] courts may have to resolve subsidiary factual disputes” as part of the claim construction process.46

The majority went on to explain when precisely the “clear error” standard of review should apply:

> [W]hen the district court reviews only evidence intrinsic to the patent (the patent claims and specifications, along with the patent’s prosecution history), the judge’s determination will amount solely to a determination of law, and the Court of Appeals will review that construction de novo.

In some cases, however, the district court will need to look beyond the patent’s intrinsic evidence and to consult extrinsic evidence in order to understand, for example, the background science or the meaning of a term in the relevant art during the relevant time period. In cases where those subsidiary facts are in dispute, courts will need to make subsidiary factual findings about that extrinsic evidence. These are the “‘evidentiary underpinnings’ of claim construction that we discussed in Markman, and this subsidiary factfinding must be reviewed for clear error on appeal.”47

While clearly a fundamental change to claim construction jurisprudence, it remains to be seen what practical implications will result from the Supreme Court’s Teva ruling.

32 Id. at 1758 (citations omitted).
34 Id. at 1319.
37 Lighting Ballast, 744 F.3d at 1277.
38 Id. at 1278.
39 Id.
40 Id. at 1279 (internal quotation marks omitted) (citations omitted).
41 Id. at 1292.
42 Id. at 1296 (O’Malley, J., dissenting).
43 Id. at 1297.
45 Teva Pharm., 2015 BL 12182, at *5-7.
46 Id., at *6.
47 Id., at *9-10.
Supreme Court More Precisely Defines Definiteness

The Supreme Court’s ruling in Nautilus v. Biosig Instruments\(^{48}\) attempts to clarify the Patent Act’s Section 112, ¶ 2, definiteness requirement, which mandates “one or more claims particularly pointing out and distinctly claiming the subject matter which the applicant regards as [the] invention.”\(^{49}\)

The Federal Circuit in definiteness cases permitted claims if a claim is “amenable to construction” and the claim, as construed, is not “insolubly ambiguous.”\(^{50}\) A Federal Circuit panel previously reversed and remanded, holding that the term “spaced relationship” was not indefinite in light of the intrinsic evidence (claim language, specification and prosecution history).

Writing for the majority, Justice Ruth Bader Ginsburg rejected the Federal Circuit’s formulation because the threshold “tolerates some ambiguous claims but not others,” which fails to satisfy the Patent Act’s definiteness requirement.\(^{51}\) Instead, the Supreme Court 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.”\(^{52}\)

The Court recognized that “absent a meaningful definiteness check . . . patent applicants face powerful incentives to inject ambiguity into their claims.”\(^{53}\) But at the same time, the Court observed the “delicate balance” and recognized that some uncertainty is the “price of ensuring the appropriate incentives for innovation.”\(^{54}\)

Indirect Infringement Is Thrust Into the Limelight

The Supreme Court, in Limelight Networks v. Akamai,\(^{55}\) answered the important question: Can a party be liable for indirect infringement if no party has committed direct infringement? The Court answered the question in the negative, requiring direct infringement as a predicate for indirect infringement.

The Patent Act and common law provides that liability for direct infringement requires performance of all steps of a method patent to be attributable to a single party.\(^{56}\) The patented technology in this case involves delivering electronic data using a “content delivery network” (CDN) and “tagging” methodology, the process of designating components to be stored on Akamai’s servers. Limelight also operates a CDN, but it requires its customers to do the tagging themselves.

A Federal Circuit panel first affirmed a district court’s judgment as a matter of law for Limelight, on a direct infringement theory, because Limelight neither had an agency relationship with its customers nor contractually obligated its customers to perform the specified steps.\(^{57}\) But the Federal Circuit granted en banc review and reversed, holding that the theory of induced infringement is appropriate.\(^{58}\) In response, the Supreme Court stated that “[t]he Federal Circuit’s analysis fundamentally misunderstands what it means to infringe a method patent.”\(^{59}\) Writing for the majority, Justice Samuel A. Alito justified the holding on the grounds that induced infringement requires direct infringement, and direct infringement only occurs where a party performs each step in the patent. The Court, however, did not weigh in on the propriety of the Federal Circuit’s view on direct, joint infringement, expressed in Muniauction.\(^{60}\) Thus, the Supreme Court left the Federal Circuit’s Muniauction standard, i.e., one party who did not perform all of the claimed method steps is still liable as a direct infringer if the party exercised direction or control over others to perform the method steps, open for future resolution.

For at least induced infringement, the traditional rule remains intact, requiring direct infringement as a predicate to induced infringement.\(^{61}\)

Standard Essential Patents and F/RAND Cases: Injunction Permissible?

Standard essential patents (SEPs) are patents where, in order to practice technological standards promulgated by a standard setting organization (SSO), one must practice the patented invention. The important question today is: Are injunctions permitted in federal courts in lawsuits where there is no F/RAND license?

In Apple v. Motorola,\(^{62}\) Judge Reyna, writing for the court, affirmed Apple’s grant of summary judgment that Motorola is not entitled to an injunction for infringement of an SEP. The district court ruling, authored by Judge Posner, similarly granted Apple’s motion for summary judgment, but Judge Posner’s language may be construed to imply that injunctions are never permissible for SEPs. The Federal Circuit clarified: “To the extent that the district court applied a per se rule that injunctions are unavailable for SEPs, it erred.”\(^{63}\) After conducting an injunction analysis consistent with eBay,\(^{64}\) the court determined that an


\(^{49}\) 35 U.S.C. § 112, ¶ 2. The America Invents Act (AIA) renumbered the provisions in § 112. Post-AIA, § 112, ¶ 2 is referred to as § 112(b).


\(^{51}\) Nautilus, 134 S. Ct. at 2124.

\(^{52}\) Id.

\(^{53}\) Id. at 2129 (citation omitted).

\(^{54}\) Id. at 2128 (citation omitted).


\(^{59}\) Limelight, 134 S. Ct. at 2117.


\(^{61}\) Notably, however, the Supreme Court recently granted certiorari in Commil v. Cisco on the question of whether a defendant’s good-faith belief that a patent is invalid is a defense to induced infringement under § 271(b). No. 13-896, 2014 BL 341805 (Dec. 5, 2014) (89 PTCJ 374, 12/12/14).


\(^{63}\) Id. at 1331-32.

junction is not appropriate. In dissent, former Chief Judge Rader suggested that “[t]he record in this case shows evidence that Apple may have been a holdout,”65 which could significantly affect the eBay analysis.

Similarly, Judge Robart, in the oft-cited district court case Microsoft v. Motorola,66 granted Microsoft’s motion for partial summary judgment to dismiss Motorola’s claims for injunctive relief. Judge Robart determined that Motorola would not be irreparably harmed, because Motorola agreed to license its SEPs on RAND terms, and that monetary damages would be adequate in place of an injunction. However, Judge Robart, consistent with the Federal Circuit’s appeal in Apple v. Motorola, determined that the ruling is based on the specific circumstances of the case, and an injunction may be appropriate in the future. The case is on appeal.

In another recent district court case, Realtek v. LSI Corp., Judge Whyte granted the plaintiff’s motion to preliminarily enjoin defendants from enforcing any exclusion order or injunctive relief by the ITC, yet later denied Realtek’s motion for a permanent injunction.67 The court denied Realtek’s motion because irreparable harm is a prerequisite for an injunction, and in the absence of irreparable harm, “there must be a likelihood that substantial irreparable harm will be ‘immediate’ in the absence of injunctive relief.”68

The Federal Trade Commission (FTC) also weighed in on this issue.69 After discussing the benefits of SEPs licensed on RAND terms, including the increase in innovation and competition, while reducing the risk of patent hold-up, the FTC summarized saying that “we are concerned that a patentee can make a RAND commitment as part of the standard setting process, and then seek an exclusion order for infringement of the RAND-encumbered SEP as a way of securing royalties that may be inconsistent with that RAND commitment.”70 The FTC statement and corresponding justifications can be used in conjunction with the eBay framework, but it does not create a per se rule itself.

These reported cases suggest that there is no per se rule for or against granting injunction or exclusion order for a SEP patent holder. The courts continue to grapple with determining what constitutes fair, reasonable and nondiscriminatory terms for licensing SEP’s and which party, the SEP patent holder or the prospective licensee, is acting reasonably or unreasonably on a case-by-case basis. If the patentee is unreasonable and seeks a higher royalty than is fair and reasonable, that patentee may not be able to obtain an injunction. On the other hand, if the prospective licensee is unreasonable by refusing to take a license when the offered terms are within the bounds of the RAND commitment, there may be a compelling argument for issuing an injunction. The conduct of the parties will affect the remedy available to the SEP patent holder and could potentially implicate antitrust violations.

---

65 Apple v. Motorola, 757 F.3d 1286 at 1332 (Rader, C.J., dissenting).
68 Realtek, 2014 BL 168528, at *5.
70 Id.