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PATENTS

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.

2014 Year-in-Review: Important U.S. Patent Law Developments—A Busy Tech Year for the Supreme Court



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

Hiro Hagiwara is a partner in the Intellectual Property Litigation practice group in Ropes & Gray's Tokyo office, and has represented the world's leading technology and life sciences companies in cross-border IP licensing and litigation matters for over 20 years. He can be reached at hiroyuki.hagiwara@ropesgray.com.

Han Xu and Rodrigo Valle are IP litigation associates with Ropes & Gray.

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;

¹ The Supreme Court also issued a decision on Jan. 22, 2014, in *Medtronic, Inc. v. Mirowski Family Ventures, LLC*, 134 S. Ct. 843, 2014 BL 16043, 109 U.S.P.Q.2d 1341 (2014) (87 PTCJ 625, 1/24/14). This case is not addressed in this article.

■ *Nautilus v. Biosig Instruments*: 9-0 unanimous decision vacating and remanding the Federal Circuit’s opinion and analysis; and

■ *Limelight Networks v. Akamai*: 9-0 unanimous decision reversing and remanding the Federal Circuit’s holding.

Importantly, the Supreme Court reversed or vacated four of the five 2014 patent cases, and affirmed only one. The only affirmed opinion, *CLS Bank*, was a heavily fractured opinion at the Federal Circuit in which there were seven separate opinions. Clearly, the Supreme Court is often at odds with the Federal Circuit, as evidenced by the number of petitions for *certiorari* granted and with the number of reversals.

Whether these trends will continue in the future remains an open question, but what is clear is that the Supreme Court is willing to reshape the patent law landscape. Indeed, just this week, the Supreme Court issued its first patent decision of 2015 in *Teva v. Sandoz*. Although not unanimous, the Court’s ruling makes a significant change to the deference afforded to a district court’s claim construction rulings, and the majority again vacated and remanded the Federal Circuit’s prior ruling.

Section 101 Rules the Day

The Supreme Court maintained its recent interest in Section 101 patentable subject matter cases. Following on the footsteps of recent life science patentable subject matter cases in the past few years,² the Supreme Court issued an opinion in *Alice Corp. v. CLS Bank*,³ holding that the claims related to computerized trading platforms are drawn to a patent-ineligible abstract idea. In comparison to the Federal Circuit ruling below,⁴ which contained seven separate opinions, the Supreme Court issued a unanimous opinion rejecting the patentability of the method and systems claims.

The Supreme Court endorsed and applied the two-step methodology developed in *Mayo v. Prometheus*: (1) “determine whether the claims at issue are directed to one of those patent-ineligible concepts,”⁵ and if so, (2) “[w]hat else is there in the claims before us?”⁶ The Court last addressed the “abstract idea” category in *Bilski*, which claimed methods related to “the basic concept of hedging, or protecting against risk.”⁷ Justice Clarence Thomas wrote “there is no meaningful distinction between the concept of risk hedging in *Bilski* and the concept of intermediated settlement at issue here. Both are squarely within the realm of ‘abstract ideas.’”⁸

² *Ass’n for Molecular Pathology v. Myriad Genetics, Inc.*, 133 S. Ct. 2107, 2013 BL 155804, 106 U.S.P.Q.2d 1972 (2013) (86 PTCJ 332, 6/14/13); *Mayo Collaborative Servs. v. Prometheus Labs, Inc.*, 132 S. Ct. 1289, 2012 BL 66018, 101 U.S.P.Q.2d 1961 (2012) (83 PTCJ 727, 3/23/12).

³ *Alice Corp. Pty Ltd. v. CLS Bank Int’l*, 134 S. Ct. 2347, 82 L. Ed. 2d 296, 2014 BL 170103, 110 U.S.P.Q.2d 1976 (2014) (88 PTCJ 513, 6/20/14).

⁴ *CLS Bank Int’l v. Alice Corp. Pty. Ltd.*, 717 F.3d 1269, 2013 BL 124940, 106 U.S.P.Q.2d 1696 (Fed. Cir. 2013) (en banc) (86 PTCJ 120, 5/17/13).

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

⁶ *Id.* (citations omitted).

⁷ *Bilski v. Kappos*, 561 U.S. 593, 611, 2010 BL 146286, 95 U.S.P.Q.2d 1001 (2010) (80 PTCJ 285, 7/2/10).

⁸ *Alice Corp.*, 82 L. Ed. 2d at 307.

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.”⁹ Further, “[t]he method claims do not, for example, purport to improve the functioning of the computer itself.”¹⁰ 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.”¹¹ 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.”¹²

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.*¹³: 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.*¹⁴: finding cloned animals not subject matter eligible, even where the clone is distinguishable from the donor mammal;

■ *SmartGene v. Advanced Biological Labs., SA*¹⁵: holding not patentable claims directed to guiding the selection of a therapeutic treatment;

■ *I/P Engine, Inc. v. AOL Inc.*¹⁶: (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”;

⁹ *Id.*

¹⁰ *Id.* at 310 (citations omitted).

¹¹ *Id.* at 311 (citations omitted) (internal quotation marks omitted).

¹² *Alice Corp.*, 82 L. Ed. 2d at 305 (citations omitted).

¹³ 113 U.S.P.Q.2d 1097 (Fed. Cir. Dec. 5, 2014) (89 PTCJ 370, 12/12/14).

¹⁴ 750 F.3d 1333, 110 U.S.P.Q.2d 1668 (Fed. Cir. 2014) (88 PTCJ 167, 5/16/14).

¹⁵ 555 Fed. Appx. 950, 2014 BL 18777 (Fed. Cir. 2014) (87 PTCJ 680, 1/31/14).

¹⁶ 576 Fed. Appx. 982, 2014 BL 226689 (Fed. Cir. Aug. 15, 2014) (unpublished Fed. Cir. opinion) (88 PTCJ 1044, 8/22/14).

■ *Planet Bingo v. VKGS*¹⁷: holding that computer-aided methods and systems for managing the game of bingo are patent-ineligible because they are directed towards an abstract idea and they lack an inventive concept sufficient to transform the claim subject matter into a patent-eligible application;

■ *BRCA1- & BRCA2-Based Hereditary Cancer Test Patent Litig. v. Ambry Genetics Corp.*¹⁸: holding composition of matter claims directed towards primers patent-ineligible, because primers are not distinguishable from patent-ineligible isolated DNA;

■ *Ultramercial, Inc. v. Hulu, LLC*¹⁹: holding patent-ineligible a method for distributing copyrighted material in exchange for viewing advertisements, because showing advertisements in exchange for viewing content is an abstract idea, and because “the claims simply instruct the practitioner to implement the abstract idea with routine, conventional activity”;

■ *buySAFE, Inc. v. Google, Inc.*²⁰: holding patent-ineligible methods for performing steps for guaranteeing a party’s performance of its online transaction, nothing that they “do not push or even test the boundaries of the Supreme Court precedents under section 101”;

■ *Digitech Image Techs., LLC v. Electronics for Imaging, Inc.*²¹: holding patent-ineligible a device profile and method for creating a device profile within a digital image processing system because a device profile is “simply information that does not fall under any of the categories of eligible subject matter under section 101”; and

■ *Content Extraction & Transmission LLC v. Wells Fargo Bank, N.A.*²²: holding methods for “extracting data from hard copy documents using an automated digitizing unit such as a scanner, 2) recognizing specific information from the extracted data, and 3) storing that information in a memory” patent ineligible at the pleading stage and affirming the district courts grant of defendant’s Rule 12(b)(6) motion to dismiss.

Exceptional Ruling From the Supreme Court: Lower Than High Mark of the Standard

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*²³ 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.”²⁵ 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 “non-exclusive 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

¹⁷ 576 Fed. Appx. 1005, 2014 BL 235907 (Fed. Cir. Aug. 26, 2014) (unpublished Fed. Cir. opinion) (88 PTCJ 1112, 8/29/14).

¹⁸ No. 2014-1361, 2014 BL 353972 (Fed. Cir. Dec. 17, 2014) (88 PTCJ 1467, 10/10/14).

¹⁹ 772 F.3d 709, 112 U.S.P.Q.2d 1750 (Fed. Cir. 2014) (89 PTCJ 166, 11/21/14).

²⁰ 765 F.3d 1350, 112 U.S.P.Q.2d 1093 (Fed. Cir. 2014) (88 PTCJ 1180, 9/12/14).

²¹ 758 F.3d 1344, 111 U.S.P.Q.2d 1717 (Fed. Cir. 2014) (88 PTCJ 748, 7/18/14).

²² No. 2013-1588, 2014 BL 361098 (Fed. Cir. Dec. 23, 2014) (89 PTCJ 523, 1/2/15).

²³ *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749, 2014 BL 118431, 110 U.S.P.Q.2d 1337 (2014) (88 PTCJ 28, 5/2/14).

²⁴ *Highmark Inc. v. Allcare Health Mgmt. Sys., Inc.*, 134 S. Ct. 1744, 2014 BL 118430, 110 U.S.P.Q.2d 1343 (2014) (88 PTCJ 28, 5/2/14).

²⁵ 35 U.S.C. § 285.

²⁶ *Brooks Furniture Mfg., Inc. v. Dutailier Int’l, Inc.*, 393 F.3d 1378, 1381, 73 U.S.P.Q.2d 1457 (Fed. Cir. 2005) (69 PTCJ 251, 1/14/05) (defining “material inequitable conduct” as including “willful infringement, fraud or inequitable conduct in procuring the patent, misconduct during litigation, vexatious or unjustified litigation, conduct that violates Fed. R. Civ. P. 11, or like infractions”).

²⁷ *Octane Fitness*, 134 S. Ct. at 1755.

²⁸ *Id.* at 1756.

²⁹ *Id.*

³⁰ *Id.* at 1756 n. 6 (internal quotation marks omitted).

³¹ *Id.* at 1757 (internal quotation marks omitted) (citation omitted).

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.

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

Deference afforded to district courts for claim construction remains a hot topic in patent law. The Federal Circuit decided the much anticipated *en banc* case *Lighting Ballast v. Philips Electronics*³⁵ on Feb. 21, 2014, and just this week the Supreme Court issued a revolutionary decision in *Teva Pharmaceuticals v. Sandoz*³⁶ on Jan. 20, 2015.

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 Lourie, 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. Westview*⁴⁴ 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).

³³ *Highmark, Inc. v. Allcare Health Mgmt. Sys., Inc.*, 687 F.3d 1300, 1309, 104 U.S.P.Q.2d 1046 (Fed. Cir. 2012) (84 PTCJ 618, 8/10/12).

³⁴ *Id.* at 1319.

³⁵ *Lighting Ballast Control LLC v. Philips Elecs. N. America Corp.*, 744 F.3d 1272, 109 U.S.P.Q.2d 1969 (Fed. Cir. 2014) (87 PTCJ 940, 2/28/14).

³⁶ *Teva Pharm. USA, Inc. v. Sandoz, Inc.*, No. 13-854, 2015 BL 12182 (U.S. Jan. 20, 2015) (see this issue).

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.

⁴⁴ *Markman v. Westview Instruments Inc.*, 517 U.S. 370, 38 U.S.P.Q.2d 1461 (1996)

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.

⁴⁸ *Nautilus, Inc. v. Biosig Instruments, Inc.*, 134 S. Ct. 2120, 2014 BL 151635, 110 U.S.P.Q.2d 1688 (2014) (88 PTCJ 373, 6/6/14).

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).

⁵⁰ *Biosig Instruments, Inc. v. Nautilus, Inc.*, 715 F.3d 891, 898-899, 106 U.S.P.Q.2d 1554 (Fed. Cir. 2013) (86 PTCJ 17, 5/3/13), vacated by 134 S. Ct. 2120 (2014).

⁵¹ *Nautilus*, 134 S. Ct. at 2124.

⁵² *Id.*

⁵³ *Id.* at 2129 (citation omitted).

⁵⁴ *Id.* at 2128 (citation omitted).

⁵⁵ *Limelight Networks, Inc. v. Akamai Techs, Inc.*, 134 S. Ct. 2111, 2014 BL 151636, 110 U.S.P.Q.2d 1681 (2014) (88 PTCJ 371, 6/6/14).

⁵⁶ See 35 U.S.C. § 271(a).

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 in-

⁵⁷ *Akamai Techs., Inc. v. Limelight Networks Inc.*, 629 F.3d 1311, 2010 BL 301612, 97 U.S.P.Q.2d 1321 (Fed. Cir. 2010) (81 PTCJ 255, 12/24/10)

⁵⁸ *Akamai Techs., Inc. v. Limelight Networks Inc.*, 692 F.3d 1301, 2012 BL 225248, 104 U.S.P.Q.2d 1799 (Fed. Cir. 2012) (en banc) (84 PTCJ 785, 9/14/12)

⁵⁹ *Limelight*, 134 S. Ct. at 2117.

⁶⁰ *Muniauction Inc. v. Thomson Corp.*, 532 F.3d 1318, 2008 BL 146916, 87 U.S.P.Q.2d 1350 (Fed. Cir. 2008) (76 PTCJ 410, 7/25/08).

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).

⁶² *Apple Inc. v. Motorola, Inc.*, 757 F.3d 1286, 1294, 110 U.S.P.Q.2d 1695 (Fed. Cir. 2014) (88 PTCJ 12, 5/2/14).

⁶³ *Id.* at 1331-32.

⁶⁴ *eBay Inc. v. MercExchange LLC*, 547 U.S. 388, 78 U.S.P.Q.2d 1577 (2006) (72 PTCJ 50, 5/19/06).

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).

⁶⁶ *Microsoft Corp. v. Motorola, Inc.*, No. C10-1823JLR, 2012 BL 314989 (W.D. Was. Nov. 30, 2012).

⁶⁷ *Realtek Semiconductor Corp. v. LSI Corp.*, No. C-12-3451-RMW, 2014 BL 168528 (N. D. Cal. June 16, 2014).

⁶⁸ *Realtek*, 2014 BL 168528, at *5.

⁶⁹ Third Party U.S. Federal Trade Commission’s Statement on the Public Interest, filed on June 6, 2012, in *In re Certain*

Wireless Communication Devices, Portable Music & Data Processing Devices, Computers & Components Thereof, Inv. No. 337-TA-745, available at <http://www.ftc.gov/os/2012/06/1206ftcwirelesscom.pdf> (visited July 9, 2014).

⁷⁰ *Id.*