Bloomberg BNA

BNA's
Patent, Trademark & Copyright Journal®

PATENTS

The authors summarize what they regard as the major patent law milestones of the past year.

2013 Year-in-Review: Important U.S. Patent Law Developments




BY HIROYUKI HAGIWARA, HENRY HUANG, HAN XU, AND ANDREW BINKLEY

This installment marks the fifth anniversary of our U.S. Patent Law Year-In-Review article for Bloomberg BNA. Over these five years, we have observed significant developments in U.S. patent jurisprudence.

Hiro Hagiwara is a partner in the Intellectual Property group in Ropes & Gray's Tokyo office, and has represented 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.

Henry Huang (Washington, D.C.) and Han Xu (Tokyo) are IP litigation associates with Ropes & Gray.

Andrew Binkley is vice president for partnership development at Opalux Inc., a global leader in photonic color technology research and development. He was formerly an associate at Ropes & Gray.

In this article, as in our past installments, we strive to provide a succinct summary of a number of key developments in U.S. patent jurisprudence. Five years ago, Congress was still grappling with a bill that, after several revisions, led to enactment of the America Invents Act in 2011. Today, as reported in this article, various provisions of the America Invents Act are leading to key developments in U.S. patent law.

Looking forward, we see a new round of legislative, judicial and administrative efforts directed at striking the best balance between patent protection and freedom to operate businesses.

The U.S. Supreme Court Was Unusually Active in Life Sciences Patent Cases

This year, the Supreme Court addressed three significant patent cases in life sciences and biotechnology, marking an unusually active year for the court in intellectual property relating to this particular industry.

Myriad and Evolving Standards for Patentable Subject Matter

In the long-anticipated case of *Association for Molecular Pathology v. Myriad Genetics*,[1] the Supreme Court tackled the patentability of human genes.

Myriad Genetics Inc. successfully isolated the BRCA1 and BRCA2 genes, closely related to breast cancer, and obtained multiple patents on their work. The plaintiffs—a coalition of institutions, doctors, researchers, and patients who wanted to conduct or undergo clinical BRCA genetic testing or conduct genetic research—filed suit to invalidate Myriad's patent claims under 35 U.S.C. § 101. The disputed patents included claims to naturally occurring DNA sequences, cDNA (complementary DNA) sequences and portions of those sequences.[2] In light of the Supreme Court's decision last year in *Mayo v. Prometheus Laboratories*[3] a divided Federal Circuit had affirmed the patentability of the DNA and cDNA claims.

The Supreme Court unanimously held that naturally occurring DNA is not patentable because it is a ''product of nature,'' but that Myriad's cDNA claims were not invalid under Section 101. Regarding the DNA claims, the court observed that ''Myriad's patents would, if valid, give it the exclusive right to isolate an individual's BRCA1 and BRCA2 genes (or any strand of 15 or more nucleotides within the genes),'' and that ''[t]he location and order of the nucleotides existed in nature before Myriad found them.''[4]

''Myriad did not create anything,'' Justice Clarence Thomas's opinion said. ''To be sure, it found an important and useful gene, but separating that gene from its surrounding genetic material is not an act of invention.''[5] By contrast, regarding the cDNA claims, the court noted that cDNA differed because ''creation of a cDNA sequence from mRNA results in an exons-only molecule that is not naturally occurring.''[6]

Justice Antonin Scalia's very brief concurrence noted the technical complexity of the subject matter: ''I am unable to affirm those details on my own knowledge or even my own belief.''[7]

Myriad and other decisions in 2013 demonstrate that the scope of patentable subject matter under Section 101 remains in flux. The Federal Circuit issued a fractured ruling in *CLS Bank v. Alice Corp.*,[8] with seven separate opinions regarding the patentability of claims to computerized trading platforms. And the Patent and Trademark Office's Patent Trial and Appeal Board (PTAB) issued the first decision in a covered business method (CBM) patent review under the America Invents Act in *SAP America v. Versata*,[9] ruling that all challenged claims (relating to vehicle insurance) were invalid under Section 101 (discussed below).

This evolving case law under Section 101 will likely continue to influence the scope of biotechnology patents as well.

FTC v. Actavis: Supreme Court Guidance on Reverse Payment Settlement

This summer, the Supreme Court also addressed the topic of reverse payments—a type of settlement that, as Justice Stephen G. Breyer put it, ''requires the patentee to pay the alleged infringer, rather than the other way around.'' Reverse payments have arisen in the pharmaceutical industry, where a company that owns a branded and patented drug will pay potential generic competitors to avoid entering the market. In *FTC v. Actavis*,[10] the court confronted a circuit split as to whether these agreements violate antitrust principles, holding that such agreements are not lawful or unlawful per se, but rather subject to the ''rule of reason.''

This litigation stemmed from disputes between branded and generic pharmaceutical companies under the Hatch-Waxman Act. Solvay Pharmaceuticals received approval from the Food and Drug Administration to market AndroGel, a topical testosterone treatment, and patented the drug. Three generic drug companies—Actavis (formerly Watson), Paddock and Par—each filed abbreviated new drug applications (ANDAs) with paragraph IV certifications alleging that Solvay's patent was either invalid or not infringed by their generic products. After three years of litigation, Solvay settled by agreeing to pay millions to each generic manufacturer ($12 million to Paddock, $60 million to Par, and $19-30 million annually for nine years to Actavis), in exchange for promises not to enter the AndroGel market until 65 months prior to patent expiration.

In 2009, the FTC sued all four companies, alleging that the settlement constituted anticompetitive behavior. The Eleventh Circuit held that this reverse payment was ''immune from antitrust attack so long as its anticompetitive effects fall within the scope of the exclusionary potential of the patent.''[11] The Second and Federal Circuits had reached similar conclusions, but the Third Circuit previously held that reverse payments are presumptively *un*lawful, prompting Supreme Court review.

In a divided 5-3 opinion written by Breyer, the court held that reverse payments are neither presumptively lawful nor unlawful, but must be addressed under the traditional ''rule of reason'' test for anticompetitive behavior. The court enumerated five rationales for its holding, such as the possibility that reverse payments could adversely and unfairly affect competition, and that parties may freely settle lawsuits with other settle-

[1] *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).

[2] *Id.* at 2113.

[3] *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).

[4] *Id.* at 2113, 2116.

[5] *Id.* at 2117.

[6] *Id.* at 2119.

[7] *Id.* at 2120.

[8] *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).

[9] *SAP Am. Inc. v. Versata Dev. Grp. Inc.*, No. CBM2012-00001, 107 U.S.P.Q.2d 1097 (P.T.A.B. June 11, 2013) (86 PTCJ 335, 6/14/13).

[10] *FTC v. Actavis, Inc.*, 133 S. Ct. 2223, 2013 BL 158126, 106 U.S.P.Q.2d 1953 (2013) (86 PTCJ 393, 6/21/13).

[11] *FTC v. Watson Pharms., Inc.*, 677 F.3d 1298, 1312, 2012 BL 101301, 102 U.S.P.Q.2d 1561 (11th Cir. 2012) (84 PTCJ 14, 5/4/12).

ment mechanisms.[12] The court also observed that the size of a reverse payment matters: a relatively small payment that reflects litigation expenses may be permissible, while a large sum could demonstrate anticompetitive intent.[13] The majority simultaneously rejected the FTC's view—that reverse payments are presumptively illegal under its proposed ''quick look'' approach, without requiring analysis under the rule of reason.[14]

Chief Justice John G. Roberts Jr., joined by Scalia and Thomas, dissented, opining that this dispute was ''a fairly straight-forward case'' under Supreme Court antitrust precedent. So long as a settlement does not expand the scope of the patent's protection, according to the dissent, there should be no antitrust violation.

''The majority's rule will discourage settlement of patent litigation,'' Roberts said. ''Simply put, there would be no incentive to settle if, immediately after settling, the parties would have to litigate the same issue—the question of patent validity—as part of a defense against an antitrust suit.''[15]

Commentators have noted that *Actavis* provides little certainty regarding reverse payments because the Supreme Court counseled only that such settlements might be unlawful under certain circumstances, with little concrete guidance. Recently, the U.S. District Court for the District of Massachusetts applied *Actavis* to deny motions by pharmaceutical companies to dismiss class-action claims against them regarding reverse payments.[16] Whether *Actavis* will discourage (or encourage) new, creative settlements between branded and generic pharmaceutical companies (or other patent litigants) remains to be seen.

Seeds of Exhaustion: *Bowman* at the Supreme Court

The Supreme Court plowed more ground in the extended patent litigation saga involving Monsanto Co.'s ''Roundup Ready'' soybeans—crops genetically engineered to resist herbicides. In *Bowman v. Monsanto*, the court addressed the question of ''whether a farmer who buys patented seeds may reproduce them through planting and harvesting without the patent holder's permission,'' and held that the doctrine of patent exhaustion does not immunize such farmers from infringement liability.[17]

Monsanto licensed farmers to purchase and plant Roundup Ready seeds and consume or sell the resulting crop, but prohibited replanting any harvested soybeans, as the patented genetic modification passes to each new generation. Bowman, an Indiana farmer, purchased patented seed and harvested eight successive crops before Monsanto sued him for patent infringement. Bowman defended his conduct by asserting exhaustion, arguing that Monsanto could not control the use of the soybeans beyond their first sale. The district court and Federal Circuit rejected this argument, concluding that principles of exhaustion did not allow Bowman to make new copies of the patented seeds.

In a brief and unanimous opinion, the Supreme Court affirmed. Justice Elena Kagan's opinion reiterated the basic tenets of patent exhaustion, observing that Monsanto could not interfere with Bowman's licensed uses of the patented plants, but holding that ''the exhaustion doctrine does not enable Bowman to make *additional* patented soybeans without Monsanto's permission (either express or implied).''[18] Otherwise, the court held, a farmer ''could multiply his initial purchase, and then multiply that new creation, ad infinitum—each time profiting from the patented seed without compensating its inventor.''[19] The court also noted that it was irrelevant how Bowman obtained the seed.[20]

Bowman also raised the additional argument that seeds are unique because, unlike other patented products, they are naturally self-replicating. Justice Kagan quickly disposed of this argument: ''we think that blame-the-bean defense tough to credit'' because Bowman actively harvested multiple generations of seeds.[21] At the same time, the court limited its holding to the technology at hand, leaving other self-replicating products to another day.

Akamai and the Bounds of Indirect Infringement

As we explained in our 2012 Year-in-Review article, last year's Federal Circuit decision in the simultaneously decided *Akamai v. Limelight* and *McKesson v. Epic Systems* cases[22] delved into the boundaries between direct and indirect infringement, holding that a party can induce infringement where it induces multiple parties (including the inducing party itself) to perform the steps of a patented method, even if no single party has committed direct infringement.

Both *Akamai* parties petitioned for certiorari at the Supreme Court. Limelight Networks Inc.'s petition sought review of the Federal Circuit's liability determination and presented the question: ''Whether the Federal Circuit erred in holding that a defendant may be held liable for inducing patent infringement under 35 U.S.C. § 271(b) even though no one has committed direct infringement under § 271(a).'' Akamai Technologies Inc. filed a conditional cross-petition for certiorari to address direct infringement as well, seeking review of the question: ''Whether a party may be liable for infringement under either 35 U.S.C. § 271(a) or § 271(b) where two or more entities join together to perform all of the steps of a process claim?'' Amicus briefs were filed by Altera, Google, and CTIA.

On Jan. 10, 2014, after inviting and receiving the views of the Office of the Solicitor General, the Supreme Court granted Limelight's petition (87 PTCJ 551, 1/17/14). Meanwhile, the Court has not granted Akamai's conditional cross-petition, following the recommendations of the Office of the Solicitor General. Argu-

[12] *See Actavis*, 133 S. Ct. at 2234-37 (''In sum, a reverse payment, where large and unjustified, can bring with it the risk of significant anticompetitive effects.'').

[13] *Id.* at 2236.

[14] *Id.* at 2237.

[15] *Id.* at 2239.

[16] *See In re Nexium (Esomeprazole) Antitrust Litig.*, No. 12-md-02409-WGY (D. Mass. Sept. 11, 2013).

[17] *Bowman v. Monsanto Co.*, 133 S. Ct. 1761, 1764, 2013 BL 125908, 106 U.S.P.Q.2d 1593 (2013) (86 PTCJ 118, 5/17/13).

[18] *Id.* at 1766.

[19] *Id.* at 1767.

[20] *Id.* at 1767 n.3.

[21] *Id.* at 1769.

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

ment will likely be scheduled for April 2014, with the court's decision expected by June.

In the meantime, courts have been applying *Akamai* to address the new contours of inducement and direct infringement. For example, this spring, the Federal Circuit issued a remand in *Move v. Real Estate Alliance*,[23] for reconsideration of inducement in light of *Akamai*. Other courts could stay certain decisions on direct and indirect infringement pending the Supreme Court's review.

Lighting Ballast: Revisiting Deference to Trial Judge's Claim Construction

Basic principles of claim construction may change when the Federal Circuit issues its pending en banc ruling in *Lighting Ballast v. Philips*.[24] On Sept. 13, the court heard oral argument regarding fundamental questions of deference to district courts on claim interpretation: ''a. Should this court overrule *Cybor Corp. v. FAS Technologies, Inc.*, 138 F.3d 1448[, 46 U.S.P.Q.2d 1169] (Fed. Cir. 1998)? b. Should this court afford deference to any aspect of a district court's claim construction? c. If so, which aspects should be afforded deference?''

Early this year, a Federal Circuit panel issued a short, nonprecedential decision in this case, reviewing the district court's claim construction under the de novo standard of review imposed by the *Cybor* decision. The panel reversed, disagreeing with the trial court's analysis of Lighting Ballast Control LLC's patent and expert testimony, and holding that the claims at issue were means-plus-function terms that were indefinite and thus invalid. The full court then granted en banc review in March.

In addition to briefs from the parties, 21 amicus briefs were filed, including views from the PTO, former Federal Circuit Chief Judge Paul R. Michel, academics and technology companies. While Lighting Ballast argued that *Cybor* should be overruled entirely, the majority of the briefs (including the PTO's) argued for partial deference to district courts. Corporations including Cisco, Google and Microsoft advocated for keeping the current de novo standard of *Cybor*.

During oral arguments lasting over an hour, Federal Circuit judges expressed skepticism about the parties' positions, questioning (among other issues) what aspects of claim construction are questions of fact deserving deference and how any of the new proposed standards of review would differ substantively from existing law.

Lighting Ballast's effects on U.S. patent litigation could be substantial. If the court overturns *Cybor* and defers in whole or part to district courts on construing patents, courts and litigants might be led to invest even greater resources into *Markman* hearings. Claim construction rulings would become significantly harder to appeal successfully and therefore increasingly dispositive of patent cases. This could also drive litigants towards the PTO, where different legal standards for claim construction and appellate review currently apply.

Patent Litigation at the U.S. International Trade Commission

Section 337 Pilot Program—an Early Opportunity to Defeat an Investigation

On June 24, the International Trade Commission announced its dispositive issue pilot program (86 PTCJ 458, 6/28/13). According to the pilot program, the commission identifies, where appropriate, investigations that are likely to present a potentially dispositive issue.

In the Notice of Institution that typically issues 30 days after filing of the complaint, the commission will direct the administrative law judge to rule on the potentially dispositive issue within 100 days of institution. To do this, the ALJ is able to establish a schedule for expedited fact finding and a hearing on the potentially dispositive issue. If, following this abbreviated hearing, the ALJ rules that the issue identified by the commission is dispositive, the investigation can be stayed pending commission review. Significantly, the presiding ALJ may also limit or stay discovery on other issues, until the dispositive issue has been addressed.

On Sept. 3, the commission issued the public version of its opinion in the first case decided under the commission's dispositive issue pilot program: *Certain Products Having Laminated Packaging, Laminated Packaging, and Components Thereof*.[25] In the opinion, the commission upheld the legality of its dispositive issue pilot program and affirmed the ALJ's ruling that the complainant, Lamina Packaging Innovations Inc. of Longview, Texas, had failed to establish a domestic industry.

In its opinion in *Laminated Packaging*, the commission upheld the legality of the pilot program, overruling the ALJ's finding that the commission had provided inadequate notice of the pilot program. The commission supported this conclusion through several arguments, including: (i) the pilot program, as a set of procedural rules, is exempt from the Administrative Procedure Act's notice and comment requirements; and (ii) even if, for the sake of argument, the pilot program were defective, there was no showing of substantial prejudice to Lamina because, among other things, Lamina had ample opportunity to develop evidence on the potentially dispositive issue—here, the economic prong of the domestic industry requirement—before filing its complaint and during the four week discovery period following institution of the investigation.

The commission also affirmed the ALJ's ruling that Lamina had failed to satisfy the economic prong of the domestic industry requirement. In patent-based investigations, like *Laminated Packaging*, a complainant must establish that a domestic industry relating to the articles protected by the patents exists or is in the process of being established. This domestic industry requirement typically involves a test having two prongs: an economic one and a technical one. Here, the commission agreed with the ALJ that Lamina had not proved the activities or investment necessary to establish the eco-

[23] *Move, Inc. v. Real Estate Alliance Ltd.*, 709 F.3d 1117, 105 U.S.P.Q.2d 1948 (Fed. Cir. 2013) (85 PTCJ 605, 3/8/13).

[24] *Lighting Ballast Control LLC v. Philips Elecs. North Am. Corp.*, No. 12-1014 (Fed. Cir., argued Sept. 13, 2013) (86 PTCJ 1021, 9/20/13).

[25] Inv. No. 337-TA-874 (Int'l Trade Comm'n Sept. 3, 2013) (86 PTCJ 793, 8/16/13).

   ISSN 0148-7965

nomic prong of domestic industry, and consequently terminated the investigation. Lamina had sought to rely on ''investment in plant and equipment, labor and capital, and marketing, research and development'' as well as ''licensing activities'' to establish the economic prong of domestic industry.

The pilot program and the commission's opinion upholding the pilot program have several important implications for parties appearing before the commission. For respondents, the pilot program represents a valuable opportunity to dispose of investigations that might be weak on the merits of a potentially dispositive issue, like domestic industry, importation and standing. This remains the case even where summary determination is not suitable, perhaps because of contested material issues of fact. Consequently, proposed respondents should consider identifying potentially dispositive issues in a submission to the commission, even before institution of an investigation. Additionally, for complainants, the pilot program and the opinion highlight the importance of marshaling evidence in advance, especially evidence required to establish potentially dispositive issues.

Presidential Review-Veto Exercised for the First Time in a Long Time

Under Section 337, the president reviews commission determinations to issue exclusion and cease-and-desist orders. This authority has been assigned to the U.S. Trade Representative, which rarely disapproves of commission determinations. Notably, on Aug. 3, the USTR disapproved of the commission's determination in *Certain Electronic Devices, Including Wireless Communication Devices, Portable Music and Data Processing Devices, and Tablet Computers*.[26]

In this case, the commission determined that Apple Inc. had violated Section 337 of the Tariff Act by importing certain smartphones and tablet computers found to infringe Samsung Electronics Co.'s U.S. Patent No. 7,706,348. The commission issued an exclusion order and a cease-and-desist order for these devices, despite Samsung's declaration that the '348 patent may be considered essential to practicing certain technical standards.

In disapproving of the commission's orders, the USTR highlighted concerns about holders of standard-essential patents (SEPs) engaging in '' 'patent hold-up', i.e., asserting the patent to exclude an implementer of the standard from a market to obtain a higher price for use of the patent than would have been possible before the standard was set, when alternative technologies could have been chosen.'' The USTR relied heavily on the Department of Justice's and the PTO's ''Policy Statement on Remedies for Standard-Essential Patents Subject to Voluntary FRAND Commitments.'' Going forward, the USTR encouraged the commission to consider the public interest issues in future cases involving SEPs and to develop the relevant factual record during proceedings before the ALJ.

In contrast, on Oct. 8, the USTR allowed the commission's determination in *Certain Electronic Digital Media Devices and Components Thereof*,[27] another investigation involving Samsung and Apple. The commission issued an exclusion order and a cease-and-desist order against Samsung for a limited number of products.

One lesson from the presidential reviews of the two *Electronic Devices* investigations is that going forward it may be harder for competitors to gain the upper hand in patent battles based on SEPs. The USTR's comments in reversing the ban on Apple imports suggest that complainants seeking to enforce SEPs before the commission should give careful thought to the relevant public interest issues before proceeding. Additionally, as described in greater detail below, antitrust considerations may also be relevant when seeking to enforce SEPs before the commission.

Rising Tide Against Non-Practicing Entities?

Several significant players, including the Obama administration, the Federal Trade Commission, Congress and the courts took aim at the activities of non-practicing entities (NPEs) in 2013.

On June 4, the administration announced five executive actions ''to help bring about greater transparency to the patent system and level the playing field for innovators'' (86 PTCJ 274, 6/7/13). Several of these executive actions are specifically targeted at NPEs, including (i) a PTO rulemaking process to require patent applicants and owners to regularly update ownership information (to shed light on NPE's corporate and holding structures), (ii) new education and outreach material for end-users facing demands from NPEs and (iii) more robust data and research on the issues bearing on abusive litigation.

The administration also made seven recommendations to lawmakers, including (i) permitting courts more discretion in awarding fees to prevailing parties in patent litigation, (ii) protecting off-the shelf use by consumers and businesses and (iii) encouraging public filing of demand letters.

Additionally, on Sept. 27, the FTC announced a proposal to gather comments from approximately 25 NPEs, seeking to examine how NPEs do business and to ''develop a better understanding of how they impact innovation and competition.'' The FTC's proposal targets non-innovating NPEs, as opposed to NPEs that seek to develop and transfer technology. Topics would include: (i) how NPEs acquire patents, (ii) how NPEs compensate prior patent owners, (iii) NPEs' assertion costs and (iv) NPEs' assertion earnings.

Throughout 2013, Capitol Hill has worked on legislation to curb NPEs. These include the Innovation Act (87 PTCJ 259, 12/6/13), the Shield Act (85 PTCJ 572, 3/1/13) and others. Suggested legislative initiatives include (i) requiring more detailed complaints, (ii) limited discovery pending claim construction and (iii) strengthened fee-shifting for awarding fees to the prevailing party.

Whether Congress pulls together to pass these legislative initiatives into law remains to be seen. On one hand, there appears to be strong bipartisan support for reforming the patent system as it relates to NPEs. On the other hand, Congress has just endured a particularly fractious fall, which may make the prospect of true bipartisan reform less palatable.

[26] Inv. No. 337-TA-794 (Int'l Trade Comm'n Aug. 3, 2013) (86 PTCJ 741, 8/9/13).

[27] Inv. No. 337-TA-796 (Int'l Trade Comm'n Oct. 8, 2013) (86 PTCJ 792, 8/16/13).

Finally, courts and judges have also been active in 2013 in addressing NPEs. On Nov. 1, Chief Judge Randall R. Rader of the Federal Circuit gave a speech at a bar conference held in eastern Texas, cautioning against legislative action specifically targeting NPEs. Rader opined that there is no fundamental problem with NPEs, but that instead, problems occur when parties—including NPEs—engage in litigation misconduct. Rader stated that ''[o]ur law does not make distinctions based on the characteristics of parties, but on their actions proven in a court of law. The definition of a 'troll' will always be over-inclusive or under-inclusive to the detriment of justice. Instead of finger-pointing and name-calling, the law needs to focus on blameworthy conduct.''

Rader claimed that courts already have the tools necessary to deal with litigation misconduct, including through (i) summary judgment, (ii) fee reversal, (iii) litigation expense reforms like model e-discovery orders, (iv) venue transfer and (v) litigation stays (e.g., staying suits against customers when manufacturers are also named).

One notable example of a court employing these tools is Judge William Alsup's Order Denying Motion to Dismiss in *Network Protection Sciences v. Fortinet*.[28] In the order, Alsup, in the Northern District of California, cited earlier comments from Rader and others regarding courts' ability to make trolls pay for abusive litigation. Alsup proceeded to find that Network Protection Sciences LLC, an NPE ''has engaged in litigation misconduct'' by attempting to conceal evidence relating to patent title and by attempting to manufacture venue in the Eastern District of Texas. While Alsup held any remedy in abeyance, the warning to NPS was clear.

Given the number of significant players pushing for reform of patent litigation as it relates to NPEs, 2014 may provide significant developments on the treatment of NPEs or of abusive litigation conduct more generally.

Guidance from District Courts on RAND Determination in Standard-Essential Patent Litigations

A number of district court decisions this past year sought to address a recent issue commonly disputed in matters involving SEPs—what constitutes a (fair) reasonable and non-discriminatory (F/RAND) royalty rate?

In *Microsoft v. Motorola*,[29] a case involving 802.11 Wi-Fi and H.264 video coding standard patents, District of Washington Judge James L. Robart adopted a hypothetical negotiation analysis using modified *Georgia-Pacific* factors that considered, for example, contribution of patents to standard and to implementer, past royalties negotiated under RAND or comparable negotiation, customary practices of businesses licensing RAND-committed patents, and purpose of the RAND commitment. The range of RAND rates Robart ultimately arrived at (0.55 cents to 16.39 cents for H.264, 0.8 cents to 19.5 cents for Wi-Fi) were lower than what Motorola had proposed.

More recently, in *In re Innovatio*,[30] Chief Judge James F. Holderman of the U.S. District Court for the Northern District of Illinois applied a modified version of Judge Robart's methodology to determine the RAND rate to be paid by manufacturers of Wi-Fi equipment for nineteen of Innovatio's 802.11 SEPs. The court summarized its three-step framework as (1) considering the importance of the patent portfolio to the standard (i.e., proportion of patents in the portfolio essential to the standard and technical contribution of the patent portfolio as a whole to the standard), (2) considering the importance of the patent portfolio as a whole to the alleged infringer's accused products, and (3) examining other licenses for comparable patents to determine a RAND rate to license the patent portfolio.

In his analysis, Holderman acknowledged that the question of whether a RAND obligation precludes an injunction remains ''muddled,'' but concluded that even the removal of the injunction threat in a RAND context would not significantly alter the balance of power in patent litigation. The court also reasoned that while royalty stacking may be a concern, the court should consider royalty stacking as a rough accuracy check—e.g., if the court determines that a given patent portfolio provide 25 percent of the functionality of a standard, then the SEPs outside of the portfolio should comprise the remaining 75 percent of the standard's value. The court ultimately arrived at 9.56 cents per Wi-Fi chip, much lower than the $4-40 royalty Innovatio had sought, and fell ''comfortably within'' Robart's 0.8 cents to 19.5 cents RAND range.

The opinions of Robart and Holderman—at 207 pages and 89 pages, respectively—reflect fact-sensitive and case-by-case evidentiary-based approaches to assessing RAND royalty rates. They will potentially set a significant precedent to a new approach in royalty determination, modifying the historical reasonable royalty analysis.

Antitrust Settlements Over Standard-Essential Patents

Earlier this year, the Federal Trade Commission finalized a consent order settling the Google (Motorola Mobility) antitrust case with respect to FRAND-pledged SEPs. The FTC had alleged that Google did not abide by its FRAND commitments and pursued, or threatened to pursue, injunctions and exclusion orders against companies that were willing to license the SEPs on FRAND terms. The final order requires Google to abide by its commitments to license its SEPs on FRAND terms.

Notably, under the order, Google generally cannot seek an injunction or exclusion order against a party for using Google's patented technology to comply with a standard if the other party is willing and able to pay Google fair and reasonable royalties. However, Google can demand that, as a condition of not seeking injunction or exclusion order, Google and the party agree to license each other's SEPs under FRAND terms.

In a letter sent to public commenters, the FTC explained that the order ''strikes a balance'' in that an implementer can negotiate licensing terms without facing the threat of an injunction, but Google is not barred

[28] *Network Protection Scis., LLC v. Fortinet, Inc.*, No. C 12-01106 WHA (N.D. Cal. Aug. 20, 2013).

[29] *Microsoft Corp. v. Motorola, Inc.*, No. 2:10-cv-01823-JLR (W.D. Wash. April 25, 2013) (86 PTCJ 19, 5/3/13).

[30] *In re Innovatio IP Ventures, LLC Patent Litig.*, No. 1:11-cv-09308 (N.D. Ill. Oct. 3, 2013) (86 PTCJ 1185, 10/11/13).

   ISSN 0148-7965

from responding to an implementer that misuses the protections in the order to delay rather than facilitate entering into a FRAND license. However, given the case-specific nature of the settlement, its influence on district courts and parties to SEP licensing disputes will be difficult to predict.

A Busy Year for Post-Grant Challenges at the PTO

This past year has seen a tremendous increase in the number of petitions for post-grant challenges filed before the AIA-created Patent Trial and Appeal Board at the PTO. In particular, petitions for inter partes review (which replaced the former inter partes reexaminations) jumped from only 17 petitions in FY 2012 to 533 petitions in FY 2013. Petitions for covered business method review also increased from 8 petitions in FY 2012 to 56 petitions in FY 2013.

Of the inter partes review and CBM petitions filed in FY 2013, the PTAB has instituted trials for 169 and 14 petitions (while denying trials for 25 and 3 petitions), respectively. While the majority of petitions filed are directed to electrical/computer technologies (nearly 70 percent), an increasing number of petitions are directed to mechanical (15 percent), chemical (8.3 percent), biotech/pharmaceuticals (6.3 percent) and design technologies (1 percent).

First Invalidity Decision From the PTAB

In the first-ever CBM proceeding and the first of *any* of the new post-grant trial proceedings to be completed by the PTAB—SAP America Inc. successfully expedited the post-grant validity trial, and within only nine months of the petition's filing secured a landmark victory. On June 11, a three-judge panel of the PTAB unanimously invalidated all five challenged claims of Versata Software Inc.'s U.S. Patent No. 6,553,350 for failure to claim patent-eligible subject matter under 35 U.S.C. § 101, including all of the claims that had been asserted against SAP in litigation.[31]

SAP argued that the claims were ''directed to the abstract ideas of arranging customer and product hierarchies and calculating a product price.'' The PTAB agreed, concluding that ''the claims recite unpatentable abstract ideas and the claims do not provide enough significant meaningful limitations to transform these abstract ideas into patent-eligible applications of these abstractions.''

Discovery in Post-Grant Proceedings: Lessons From the First Year

In the first year of post-AIA patent challenge proceedings, the PTAB has adhered carefully to its charge that discovery be limited. Although parties can expect that board proceedings will require at least some ''routine discovery'' (i.e., (i) any exhibit cited in a paper or in testimony; (ii) deposition of affiants; and (iii) relevant information that is inconsistent with a position advanced by the party) and agreed-upon ''additional discovery'' (i.e., evidence ''directly related to factual assertions'' made by either party), the board has taken a strict approach and has granted requests for additional discovery sparingly.

In considering and limiting the scope of discovery available, the board has stressed, both in its orders and in telephonic hearings, the role of these new proceedings as an efficient alternative to district court litigation—and one that must be completed within the one-year (or, if extended, 18-month) period mandated by statute.

---

[31] *See* note 9 supra.