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CincyIP Newsletter

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2014 Supreme Court Patent Decisions

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Kevin P. Flynn

This year, the Supreme Court has unanimously decided six patent cases, five of which overturned the Federal Circuit. This wave of clarification in patent law comes amidst a national debate about the costs of patent litigation and resulting practical utility of patents to common inventors. This article briefly summarizes the new decisions and notes the likely impact of the decisions going forward.

Burden of Proof: Declaratory Judgment Actions

The patentee bears the burden of proof in a declaratory judgment action for non-infringement, even when the patentee does not counterclaim infringement. *Medtronic, Inc. v. Mirowski Family Ventures, LLC*, 571 U.S. ____ (2014). The parties in *Medtronic* were engaged in a license, the disputed terms of which prohibited the patentee from suing for infringement. The dispute concerned whether new products read on the claims of the licensed patents, thereby requiring royalty payments. The licensee brought a declaratory judgment action of non-infringement and invalidity, and the Federal Circuit held that, where the patentee is unable to bring a claim of infringement, the declaratory judgment plaintiff has the burden of proving non-infringement.

The Supreme Court reversed, holding that the patentee bears the burden of proving infringement, even when the patentee is precluded from suing for infringement. Justice Breyer noted that, in an infringement suit, the patentee ordinarily has the burden of proof, and the burden of proof is a substantive part of the law. Additionally, a declaratory judgment action is, by its nature, purely procedural. In fact, courts establish jurisdiction in such a suit by looking to the nature of the underlying action. After a declaratory action is brought in court, the suit progresses as it would if the underlying action had been directly brought. Therefore, the burden of proof remained with the patentee as the declaratory judgment defendant.

The Supreme Court brought consistency to the law regarding infringement suits and avoided the situation of requiring a party to prove a negative. The *Medtronic* decision solidified the status of the declaratory judgment action, which, the Court noted, ensures its availability to a manufacturer who is unsure of whether an envisioned product infringes a patent. However, in this case, the patentee was precluded from bringing an infringement suit but was subject to a declaratory judgment action; IP lawyers should consider the impact of license terms that may restrict a patentee from bringing an infringement suit for products that are not yet in existence.

The Award of Attorney's Fees for an Exceptional Case

In companion cases, the Supreme Court reviewed the legal requirements for determining whether a patent suit is "exceptional," allowing a court to award attorney's fees under 35 U.S.C. § 285. *Octane Fitness, LLC v. Icon Health & Fitness, Inc.*, 572 U.S. ____ (2014); *Highmark, Inc. v. Allcare Health Management System, Inc.*, 572 U.S. ____ (2014). *Octane Fitness* and *Highmark* struck down the Federal Circuit's test of requiring either material inappropriate conduct or a combination of objective baselessness and subjective knowledge of the baselessness of a patent suit. That test, the Court held, rendered § 285 superfluous, as exceptional conduct would be independently sanctionable. Rather, a district court should use its discretion to determine whether conduct stands out as extraordinary or is unreasonable, considering the totality of the circumstances. The Court also found the Federal Circuit's requirement of clear and convincing evidence baseless, noting that the remedy was historically equitable in nature.

Octane Fitness and *Highmark* place the statutory sanction of declaring a patent case exceptional in line with other sanctions that a court may apply. This gives district courts the power to cure injustices as they appear before the courts; significantly, this may be an attempt at judicial patent reform by the Court to reduce the expensive, cutthroat nature of many patent suits by vesting the district courts with the ability to control conduct before them and deter future parties from making frivolous claims.

Indefiniteness

Patent claims, under 35 U.S.C. § 112, must inform those skilled in the art of the scope of a claim with reasonable certainty. *Nautilus, Inc. v. Biosig Instruments, Inc.*, 572 U.S. ____ (2014). In *Nautilus*, the Court overruled the Federal Circuit's requirement that a claim is indefinite only if its scope is insolubly ambiguous. The Court declined to analyze whether the claim at issue, which related to the spacing of electrodes on a heart monitor for exercise machines, failed the new test as being indefinite. Citing treatises and patent drafting manuals, the Court took issue with explicit instructions that patent drafters should try to draft claims as broadly and as vaguely as possible. Rather, patents should clearly delineate the scope of protection to give notice to those skilled in the art of the nature of the protection. Uncertainty as to whether a patent covers a product should not hinder one from bringing a product to market.

The *Nautilus* decision may impact how the Patent Office analyzes claims under current § 112(b). Additionally, given the strong support for the public-notice policy of patent claims, courts may be more willing to invalidate claims if they find that a patentee drafted intentionally ambiguous claims.

Direct Infringement Under 35 U.S.C. § 271 is a Prerequisite to Induced Infringement

Liability for induced infringement as a form of indirect infringement, requires a court first to find that § 271(a), defining direct infringement, is violated. *Limelight Networks, Inc. v. Akamai Technologies, Inc.*, 572 U.S. ____ (2014). The Court restricted itself to determining the requirements of induced infringement; however, throughout its opinion, the Court expressed a willingness to consider the limitation that direct infringement of a method patent requires a single party or its agents to perform each step. The precise holding of this case simply confirms what had been settled law: induced infringement under § 271(b) requires a finding of direct infringement as defined by § 271(a). The significance of *Limelight* resides in dicta: the Court seemed to express a willingness to consider whether two or more parties may directly infringe a method patent, a concept known as divided infringement. Indeed, the Court remanded the case and explicitly noted that the Federal Circuit could consider whether the defendant might be liable under a divided infringement theory.

Reciting an Abstract Method as "Computer-Implemented" Alone Will Not Transform it into Patentable Subject Matter

A generic recitation of a computer-implemented method, without more, will not transform an otherwise abstract concept into patentable subject matter. *Alice Corp. v. CLS Bank Int'l*, 573 U.S. ____ (2014). The patents at issue in *Alice* were directed to implementations of intermediated settlement, a concept that mitigates the risk that a party to a financial transaction will not pay.

The Court affirmed the analysis espoused in *Mayo*, which directs courts that find a claim directed to an abstract idea to ask whether the balance of the claim sufficiently transforms the claim into a patent-eligible application. The Court has described this as "a search for an inventive concept." Under this analysis, given the ubiquity of computers, an abstract idea merely applied by a computer is not sufficiently inventive to qualify as patent-eligible subject matter. Noting that the prohibition on patenting abstract

ideas exists to prevent a monopoly on the basic tools of scientific work, the Court held that "wholly generic computer implementation is not generally the sort of additional feature that provides any practical assurance that the process is more than a drafting effort designed to monopolize the abstract idea itself." The Court supported its holding by noting that the computer-implemented claims resulted in neither an improved computer nor an improvement in any technical field.

This was a much-folowed case because of its potential to impact the broader world of computer-implemented patents such as software patents. However, the decision remains in line with recent decisions analyzing patent-eligible subject matter. Alice serves to confirm that merely reciting a computer implemented method will not result in a patentable claim if the underlying method is itself unpatentable. Alice additionally instructs courts to be wary of creative drafters, suggesting that courts may take a more prudent approach to patent analysis.

Conclusion

The Supreme Court clarified many aspects of patent law this year. *Medtronic* teaches that a patentee must carry the burden of proof of infringement in a declaratory judgment action, confirming the utility of a declaratory judgment action for a licensee. *Oxone Fitness and Highmark* restore discretion in the district courts to award attorney's fees in patent suits. *Nautilus* tightened the standard for finding a claim to be sufficiently definite, which may impact the way in which claims are currently drafted. *Limelight* rejected the notion that a party could be liable for induced infringement without a party being liable for direct infringement. Finally, Alice confirmed that reciting a computer-implemented method does not transform the method if the method itself is unpatentable.

The Court, for the most part, tried to increase certainty and decrease frivolity in the patent world. Time will tell whether these decisions will have that impact. However, the Court's opinion in *Limelight* injected a dose of uncertainty into the patent landscape. Should the Federal Circuit consider whether divided infringement is a proper theory of liability for direct infringement, *Limelight* may soon return to the Court for definitive clarification given the importance of the issue of direct infringement in patent law.

Chisum Patent Academy to be held March 5-6, 2015

The Chisum Patent Academy is pleased to accept registrations for the next Advanced Patent Law seminar, to be held March 5-6, 2015. The venue is the 21C Museum Hotel in downtown Cincinnati.

Why Chisum Patent Academy is Different

Because each Chisum Patent Academy seminar is uniquely limited to ten (10) participants, Chisum offers an unparalleled opportunity for interactive roundtable discussion and debate. The format is the antithesis of mega-ballroom passive presentations by large CLE providers. Each Academy seminar session is led by patent law educators and treatise authors Donald Chisum and Janice Mueller. They focus on the most significant recent Federal Circuit and Supreme Court patent decisions, looking at trends, schisms, and practice implications. Attendees benefit not only from their insights but also by sharing strategies and best practices with fellow attendees. Chisum and Mueller particularly encourage registration by experienced patent professionals seeking a sophisticated level of analysis in a participatory, interactive format.

Topics for the 2015 Cincinnati Seminar

The topics to be discussed at the Chisum Patent Academy include the following: Supreme Court and Federal Circuit Blockbusters; Patent Practice Gone Wrong: Lessons from Patent Malpractice, Exceptional Cases and Rule 11 Sanctions, and Inequitable Conduct Cases; Patent Claim Construction and Definiteness; Inter Partes Review: Two-Year Snapshot and Lessons from Case Studies.

Registration

Registration is available on a first-come, first-serve basis through the website and is \$1400 per person, which includes materials, daily continental breakfast, and afternoon snacks.

More information can be found on the [Chisum Patent Academy website](#).

CincyIP Elections

CincyIP elections are coming soon! Be on the lookout for the special election newsletter which will provide information on the candidates and the upcoming elections.

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