

# IP News You Need to Know

November 6, 2014

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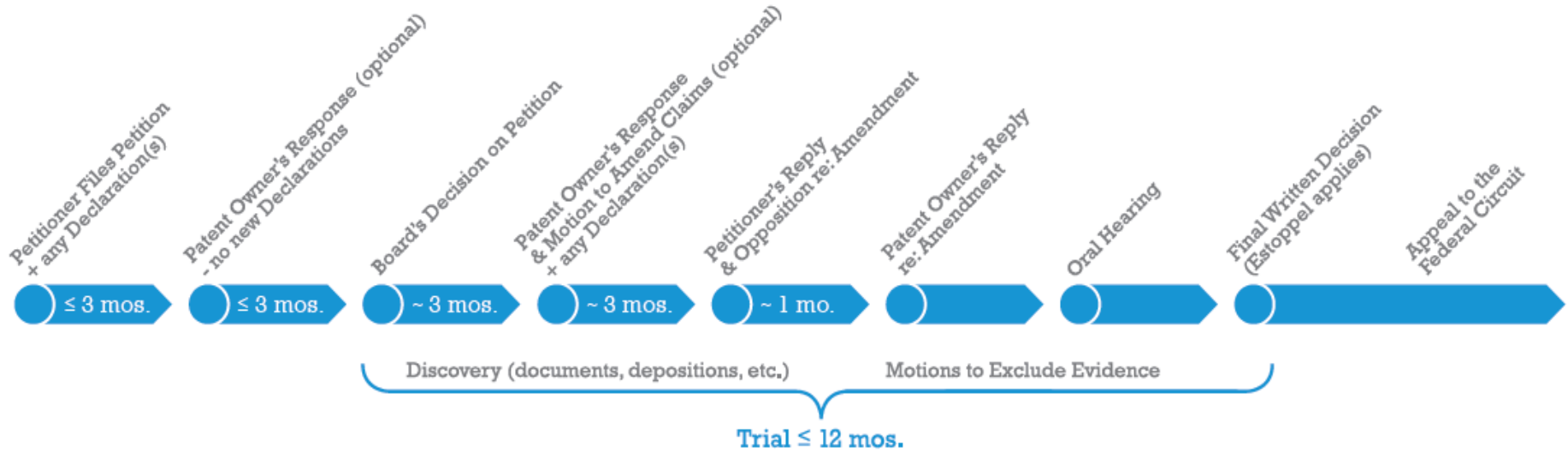
IP Impact 2014 – Silicon Valley



Brent Babcock

# USPTO POST-GRANT PROCEEDINGS: LESSONS LEARNED AFTER 2 YEARS

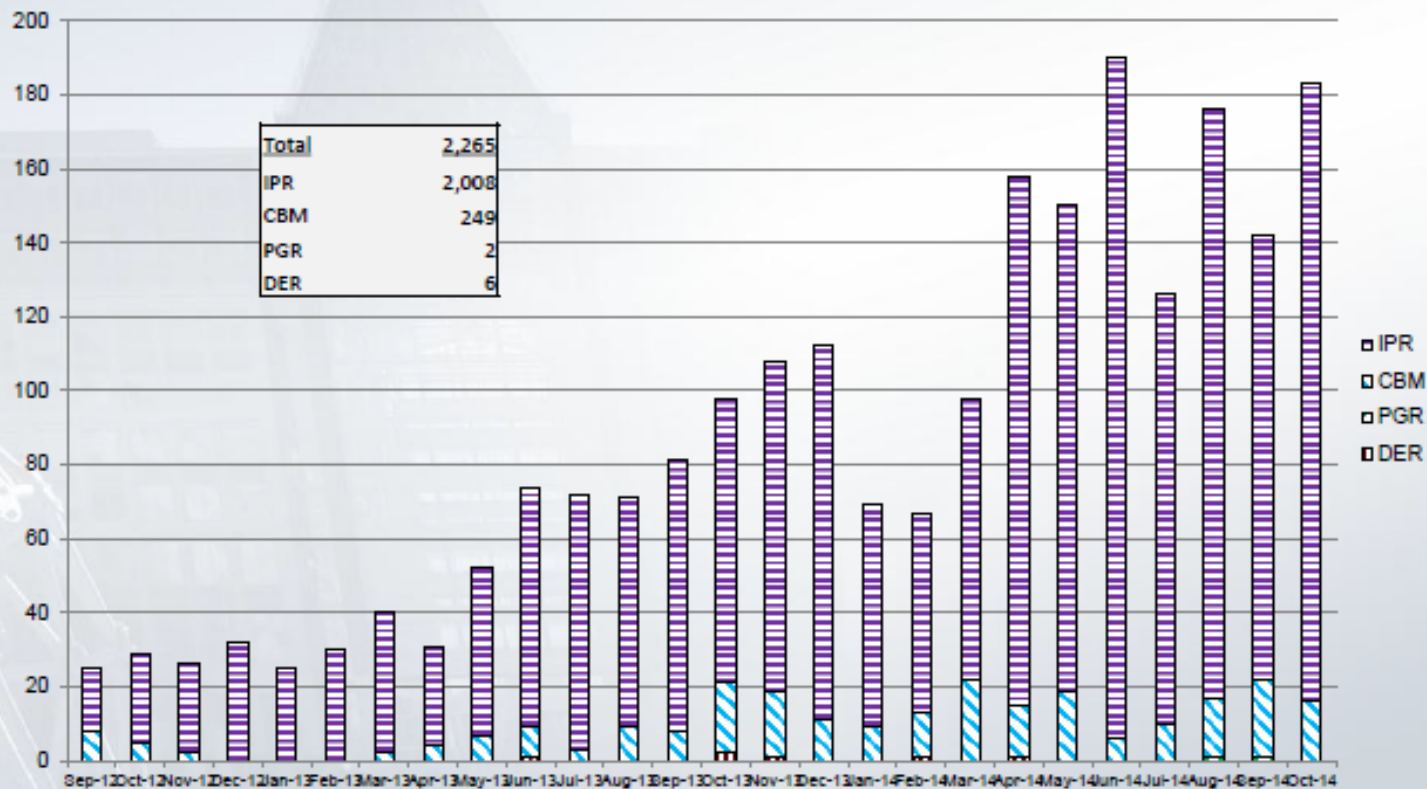
# IPR Timeline





# AIA Progress (as of October 30, 2014)

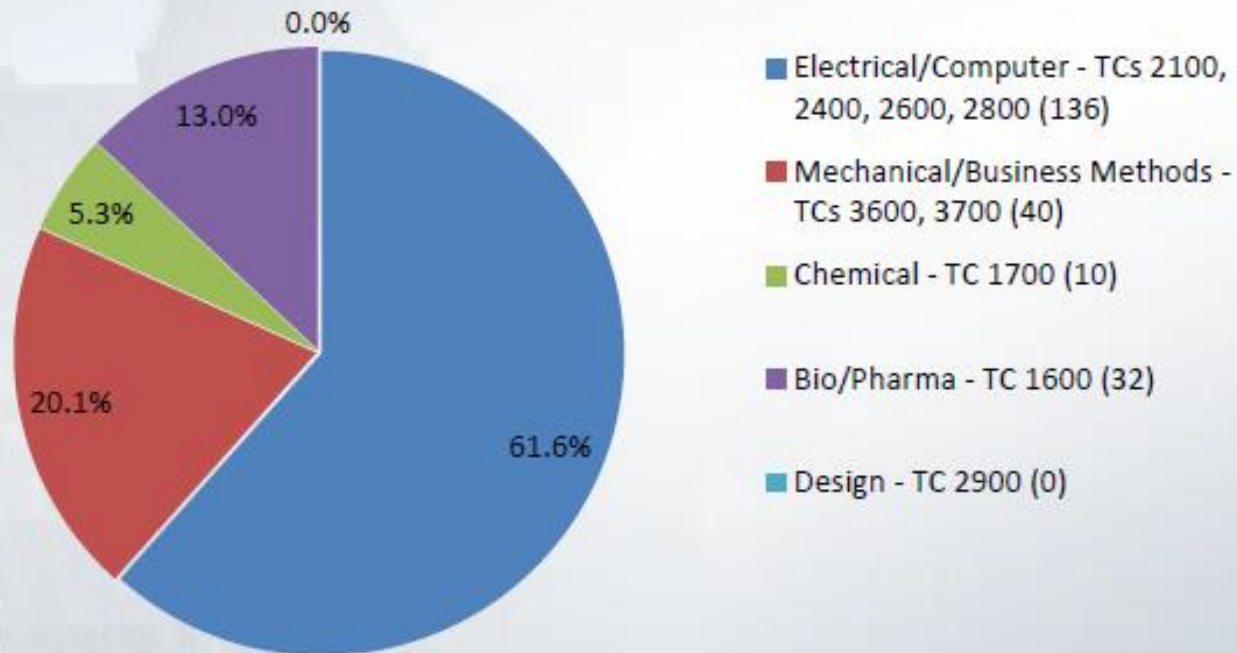
- AIA Monthly Filings



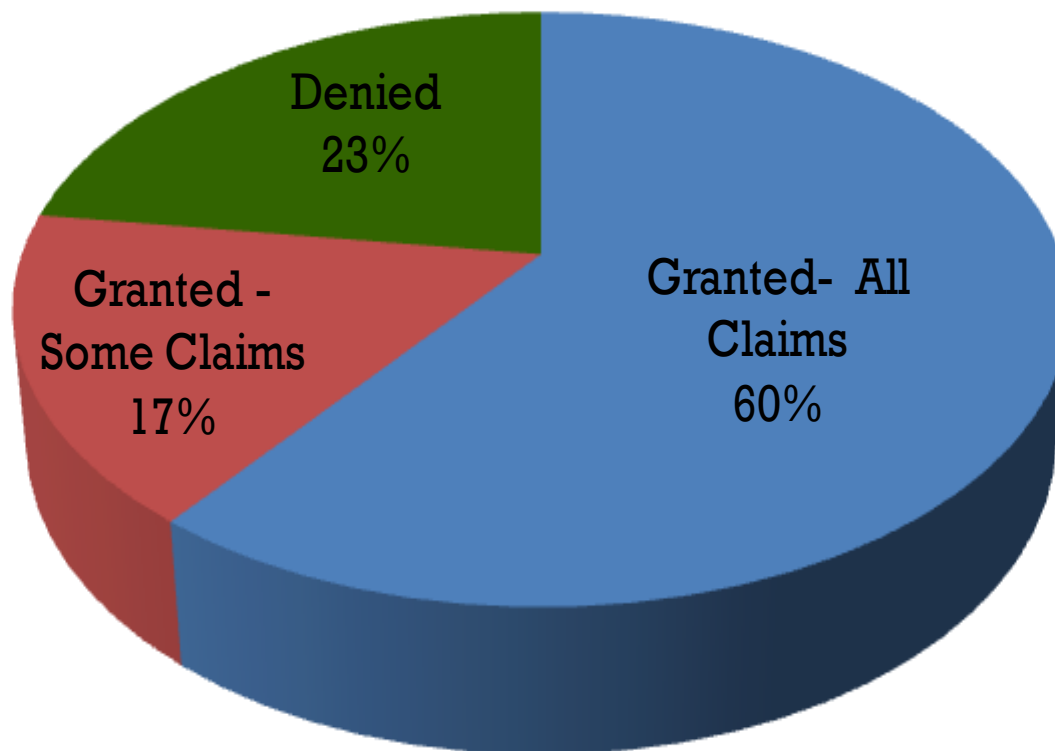


# AIA Progress (for FY15 through October 30, 2014)

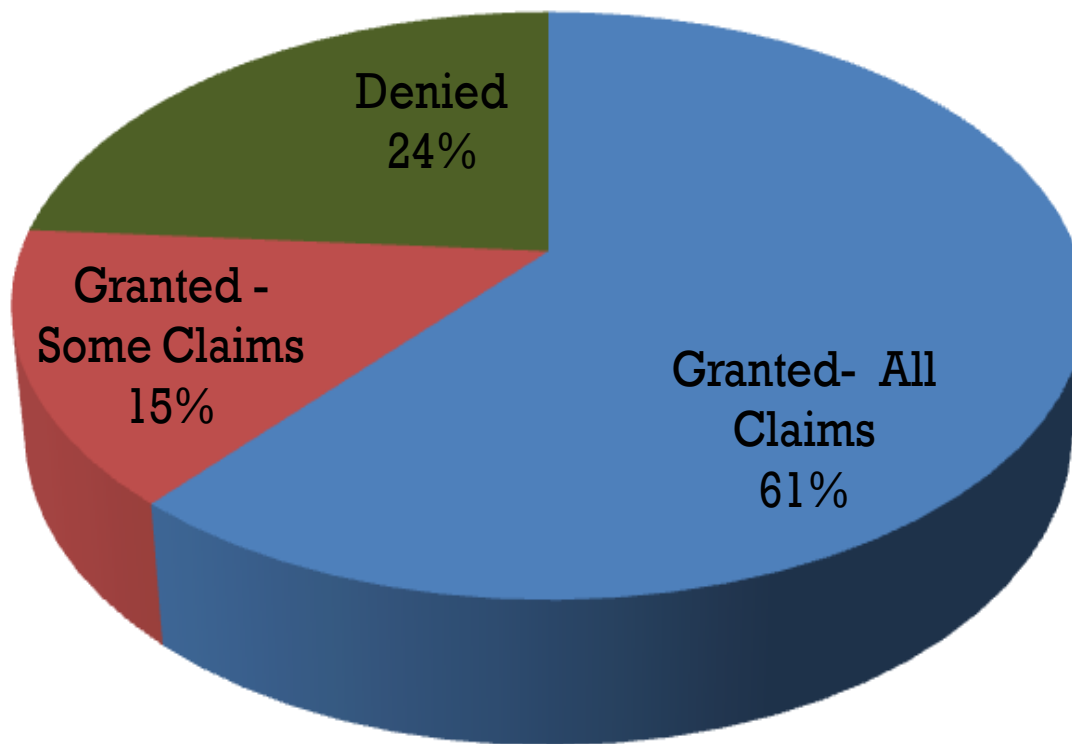
## • AIA Petition Technology Breakdown



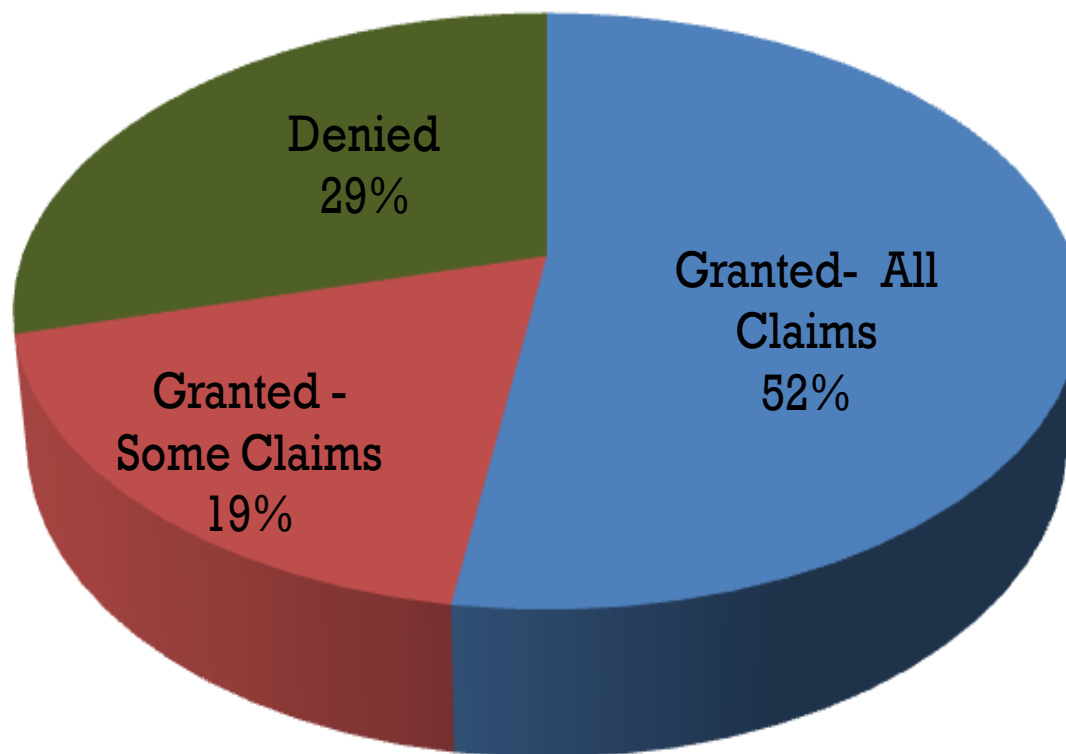
# Trials Institutions Overall



# Trial Institutions for Sep. & Oct. 2014



## Trial Institutions for Sep. & Oct. 2014 (excluding 38 Zond decisions)





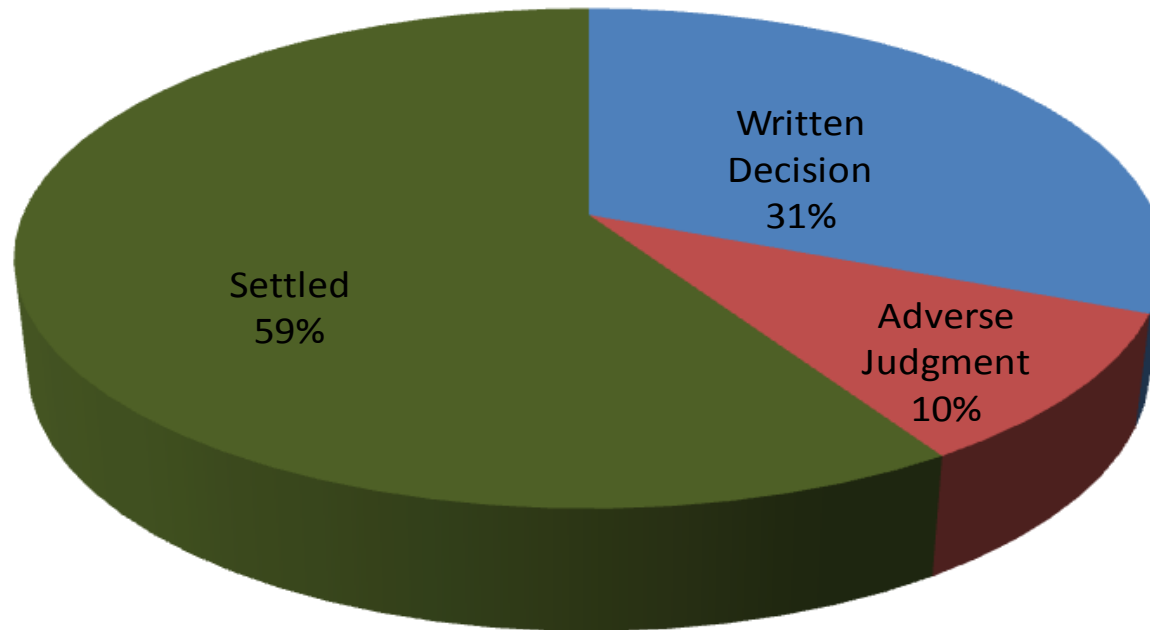
# Rationales for Denial of Petition

- Missing element
- Insufficient showing of inherency
- No reason to combine
- No expert declaration or insufficient reasoning in expert declaration
- Failure to establish reference as prior art
- Publication not established
- § 102(e) basis not sufficiently supported

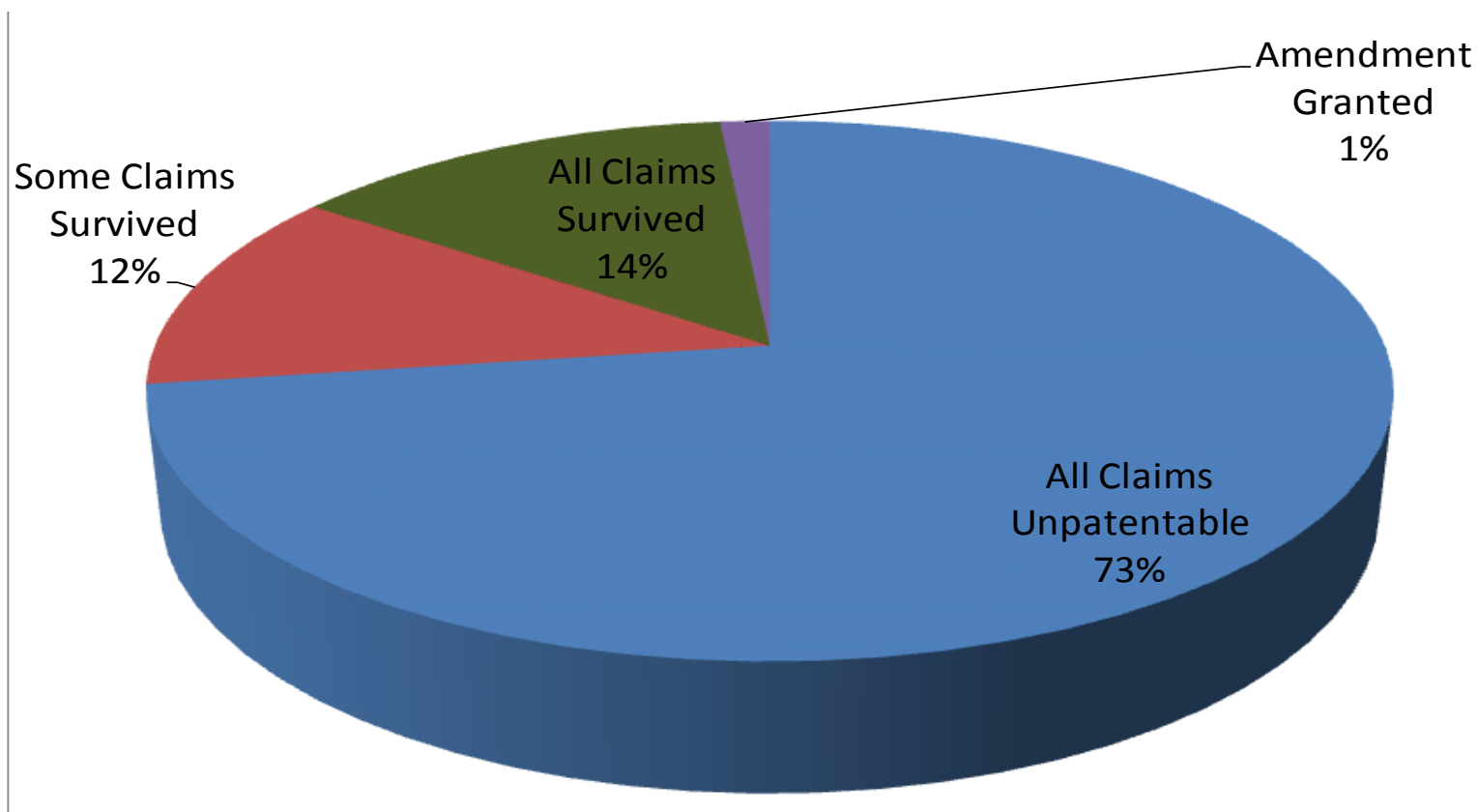
# Rationales for Denial of Petition

- Procedural
  - Statutory 1-year bar from service of Complaint
  - Filed Declaratory Judgment (DJ) action first
  - Real Party-in-Interest (RPI) not identified
  - No joinder
  - Redundancy
  - § 325(d) (previously presented)
  - Discretionary
  - PTAB's invocation is on the rise

# “Disposals”



# Final Written Decisions



# Rationales for Claims Surviving Final Decision

- Reasons provided:
  - Missing element
    - Petition argued inherency
  - No reason to combine
    - Battle of the experts
  - Reference successfully antedated
- Motion to Amend
  - Only one motion granted, and that was an unopposed Motion to Amend

# Considerations for Multi-Forum Proceedings

- IPR and litigation proceeding simultaneously
  - Most IPRs/CBMs prompted by litigation
  - Stays are common, but by no means certain
- Multiple IPRs
  - Attack different claims of same patent
  - Propose different unpatentability grounds
- IPR and continuations/reissues/ex parte reexams
  - Common strategies to seek new claims

## IPRs and Concurrent Litigation: Issues to Consider

- **Protective Order**
  - USPTO default Protective Order
  - Can be modified by stipulation with supporting rationale
- **Prosecution Bar**
  - Limited to participation with Motion to Amend?
  - Covers all USPTO activity?
- **Confidential Information**
  - Will be disclosed if PTAB deems necessary

# IPRs and Concurrent Litigation: Issues to Consider

- Coordination with Litigation Counsel
- Coordination with Prosecution Counsel
- Discovery
  - Very limited in PTAB
- Claim Construction
  - Broadest Reasonable Interpretation (BRI) v. *Phillips*
- Expert Choice/Preparation
  - Technical background
  - Litigation experience



Brian Horne and Rose Thiessen, Ph.D.

# RECENT SUPREME COURT CASES

*Octane Fitness, LLC v. ICON Health & Fitness, Inc.* **134 S.Ct. 981** (Jan. 13, 2014)

# Case Overview – Fee Shifting

- **Issue:** Is the *Brooks Furniture* framework consistent with the statutory text of 35 U.S.C. § 285
- **Held:** The Court held that the framework was “unduly rigid” and interfered with the district courts’ “statutory grant of discretion”

# Procedural History

- Icon sued Octane for patent infringement
- The District Court granted summary judgment to Octane
- Octane moved for attorney's fees under § 285
- The District Court denied the motion under the *Brooks Furniture* framework.
- The Federal Circuit affirmed
- Octane petitioned for certiorari

## Before *Octane Fitness* – The Rules from *Brooks Furniture*

- *Brooks Furniture Mfg., Inc. v. Dutailier Int'l, Inc.*, 393 F.3d 1378 (Fed. Cir. 2005)
  - Test for Fees: A case may be deemed exceptional only when:
    - (1) “there has been some material inappropriate conduct” (i.e., conduct that is “independently sanctionable”)
    - Or
    - (2) the litigation is both “brought in bad faith” and “objectively baseless.”
  - Standard of Proof: “[T]he underlying improper conduct and the characterization of the case as exceptional must be established by clear and convincing evidence.”

## *Brooks Furniture* Created a Rigid Test for Fees Based on an Antitrust Case

“Absent misconduct in conduct of the litigation or in securing the patent, sanctions may be imposed against the patentee only if both (1) the litigation is brought in subjective bad faith, and (2) the litigation is objectively baseless. *Professional Real Estate Investors v. Columbia Pictures Industries*, 508 U.S. 49, 60–61 ... (1993)”

# *Octane Fitness* Loosened the Test for Fees

- Section 285 is inherently flexible.
- An overly narrow construction of § 285 would render it superfluous.
- Either bad faith or objective baselessness alone can make a case exceptional.
- The *PRE* rule limits antitrust liability, not attorneys fees under § 285.
- An exceptional case just “stands out from others with respect to the substantive strength of a party's litigating position ... or the unreasonable manner in which the case was litigated.”

## *Brooks Furniture* Imposed an Elevated Standard of Proof

- “[T]he underlying improper conduct *and* the characterization of the case as exceptional must be established by clear and convincing evidence. *Beckman*, 892 F.2d at 1551.”
- But *Beckman* applied the clear and convincing standard to the underlying conduct only.



## *Octane Fitness* Loosened the Standard of Proof

- Standard of proof is “preponderance of the evidence.”
- This standard has been applied to other fee-shifting provisions similar to § 285.
- “Patent infringement litigation has always been governed by a preponderance of the evidence standard.”
  - Note that the “clear and convincing” standard will presumably still apply to the underlying findings of misconduct in some cases.

*Highmark Inc. v. Allcare Health Mgmt.  
Sys., Inc.* 134 S. Ct. 1744 (June 30, 2014)

## *Highmark* – Federal Circuit Reviewed Without Deference

- *Brooks Furniture* required both objective baselessness and subjective bad faith.
- Federal Circuit reviewed objective baselessness “without deference because it is a question of law.”
- Federal Circuit reviewed factual findings as to subjective bad faith for clear error.

## *Highmark* – Supreme Court Held In Favor of Deference

- *Octane Fitness* replaced the objective and subjective prongs from *Brooks Furniture* with a discretionary inquiry by the District Court.
- In light of *Octane Fitness*, the proper standard of review on appeal is abuse of discretion.

# ***OCTANE & HIGHMARK - FUTURE IMPLICATIONS***

# Willful Infringement – Expect a Looser Standard?

- Why :
  - The test for willful infringement under *Seagate* is similar to the test for fees under *Brooks Furniture*.
    - Both tests use a combination of objective and subjective prongs.
  - The statute that allows increased damages (35 U.S.C. 284) mentions no specific conduct at all.
  - *Seagate* imposed a requirement of clear and convincing evidence, just like *Brooks Furniture* did.
- Why Not:
  - *Seagate* favors accused infringers, unlike *Brooks Furniture*.
  - *Seagate* is arguably based on a better analogy to Supreme Court precedent than was *Brooks Furniture*.
    - Treble damages for willful infringement are analogous to treble damages for antitrust violations.
    - However, this analogy applies only to the willfulness two-prong test (not the standard of proof).

## May Stall Pending Legislation and Frivolous Suits

- *Octane Fitness* and *Highmark* may satisfy those who seek legislation that would use fee-shifting to discourage meritless suits by NPEs.
- Hopefully, the more realistic threat of fee awards may deter NPEs from bringing meritless cases.

*Limelight Networks, Inc. v. Akamai  
Techs., Inc.*, **134 S.Ct. 1871 (2014)** (June  
2, 2014)



# Facts

- Method of delivering electronic data over the internet using a “content delivery network” (“CDN”)
- Key limitation: website content must be “tagged” (designated for storage on the CDN provider’s servers)

## Limelight Networks, Inc.

- Limelight operates a CDN and carries out several steps of the asserted claims.
- Instead of “tagging” its customers’ websites, Limelight requires that its customers do their own tagging.

# Procedural History

- Jury trial: found direct infringement by Limelight and awarded \$40 million in damages to Akamai.
- Federal Circuit then decided *Muniauction, Inc. v. Thomson Corp.*, holding that direct infringement requires that a single party either perform every step of the claimed method or exercise control or direction over the entire process.

# Procedural History

- **District Court granted Limelight's motion: No direct infringement under 271(a).**
- **Fed. Circuit panel: affirmed**
- **Fed. Circuit (en banc): reversed without ever considering direct infringement, instead finding induced infringement under 271(b).**

## The Federal Circuit Opinion:

**“Requiring proof that there has been direct infringement . . . is not the same as requiring proof that a single party would be liable as a direct infringer.”**

## Issue Presented

- **Supreme Court granted certiorari to resolve this 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).”**

# Supreme Court Reverses the Federal Circuit

- Answer: **No.** (9-0 decision)
- The Federal Circuit's decision would create terrible line-drawing problems about what constitutes inducement under § 271(b).
- The Court bolstered this argument by citing § 271(f)(1) (exporting parts to foreign country and inducing assembly that would infringe in U.S.) as an example of Congress imposing liability for inducing activity that is not itself direct infringement.
- The Court has “already rejected the argument that conduct which would be infringing in altered circumstances can form the basis for contributory infringement” in *DeepSouth*

# Supreme Court Acknowledges Anomaly

- Court realizes that its ruling could “permit[] a would-be infringer to evade liability by dividing performance of a method patent’s steps with another whom the defendant neither directs nor controls.”
- But that anomaly comes from the holding in *Muniaction*
- Court declines to review *Muniaction*



# Takeaways/Practice Tips

- No direct infringement unless a single defendant “exercises ‘control or direction’ over the entire process” (at least for now).
- There must be a direct infringer for inducement to exist.
- Prosecutors: Write method claims that will be performed or controlled by a single actor.
- Litigators: Where there are multiple actors, argue about control.

# Indefiniteness

# Indefiniteness

- *Nautilus, Inc. v. Biosig Instruments, Inc.*, 134 S.Ct. 2120 (June 2, 2014)
- From 35 U.S.C. § 112(b) (2011):
  - “The specification shall conclude with one or more claims particularly pointing out and distinctly claiming the subject matter which the inventor or a joint inventor regards as the invention.”
- § 112(b) used by USPTO during prosecution to reject claims as unpatentable, and by courts to invalidate an issued patent

# *Nautilus v. Biosig Instruments*

**Claim 1. A heart rate monitor for use by a user in association with exercise apparatus and/or exercise procedures, comprising: . . .**

**an elongate member . . . comprising a first half and a second half;**

**a first live electrode and a first common electrode mounted on said first half in spaced relationship with each other; . . . .**

**whereby, a first electromyogram signal will be detected between said first live electrode and said first common electrode . . . .**

# *Nautilus v. Biosig Instruments*

- Summary judgment of noninfringement by District Court
  - Claim deemed indefinite because the term “spaced relationship” “did not tell [the court] or anyone what precisely the space should be” or “even supply ‘any parameters’ for determining the appropriate spacing.”

# *Nautilus v. Biosig Instruments*

- Federal Circuit overturns summary judgment
  - Terms only indefinite if not amenable to construction and insolubly ambiguous.
  - Term “spaced relationship” is not indefinite because of the inherent parameters of the claimed apparatus – i.e., the space is between two points on a human hand and must be separated so as to get two different electric signals.

# *Nautilus v. Biosig Instruments*

- Supreme Court disagrees
  - “Insolubly ambiguous” test too permissive.
  - “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 [at the time the patent was filed] about the scope of the invention. . . . The definiteness requirement, so understood, mandates clarity, while recognizing that absolute precision is unattainable.”

# Patentable Subject Matter - Software



## *Patentable Subject Matter - Software*

- *Alice Corp. Pty. Ltd. V. CLS Bank Int'l*, 134 S. Ct. 2347 (June 19, 2014).
  - Claims to a computerized method, a computer-readable medium containing computer instructions, and a computer system relating to a scheme for mitigating settlement risk by using a third-party intermediary were patent-ineligible under 35 U.S.C.S. § 101 as drawn to an abstract idea.

# *Alice Corp. v. CLS Bank*

## – Federal Circuit

- 7/10 judges agreed that a computerized method and a computer-readable medium lack subject matter eligibility
- 5/10 judges concluded that system claims eligible as hardware
- Dissent by Newman, Linn, and O'Malley (all claims patent-eligible)

# *Alice Corp. v. CLS Bank*

- Supreme Court applies two step *Mayo* analysis
  - Are claims directed to patent-ineligible concepts?
  - If yes, then is there an “inventive concept” in the claims sufficient to ensure that the patent in practice amounts to significantly more than a patent upon the ineligible concept itself
- Claims are directed to intermediated settlement, a fundamental economic practice – an abstract idea outside of Section 101

# *Alice Corp. v. CLS Bank*

- Supreme Court concludes
  - “Inventive concept” not sufficient to transform the patent ineligible abstract idea to a patent eligible application
  - Method claims merely require generic computer implementation

## *Alice Corp. v. CLS Bank*

- Appending conventional steps to an abstract idea not sufficient to provide “inventive concept”
- “We tread carefully in construing this exclusionary principle lest it swallow all of patent law. At some level all inventions embody, use, reflect upon, or apply laws of nature, natural phenomena, or abstract ideas.”

# Patentable Subject Matter - Biotech

## *Patentable Subject Matter - Biotech*

- *Ass'n for Molecular Pathology v. Myriad Genetics*, 133 S. Ct. 2107 (June 13, 2013)
  - A naturally occurring DNA segment is a product of nature and is not patent eligible merely because it has been isolated.
  - But complementary DNA (cDNA) is patent eligible because it is not naturally occurring.

# *Myriad Genetics*

- **District Court**
  - **Composition claims are patent ineligible because isolated BRCA1/2 DNA are “physical embodiment of information” and thus not “markedly different” from native DNA**
  - **Claims to methods of analysis are merely abstract mental processes without transformative limitations**



# Myriad Genetics

- Federal Circuit
  - Isolated DNA not existing in nature – subject matter eligible
  - Method claims directed to comparing or analyzing gene sequences - not subject matter eligible
  - Method claim to screening potential cancer therapeutics via *in vitro* changes – not subject matter eligible

# *Myriad Genetics*

- **Representative Composition Claim**
  - An isolated DNA coding for a BRCA1 polypeptide, said polypeptide having the amino acid sequence set forth in SEQ ID NO:2.
    - Claim 1 of patent '282

# *Myriad Genetics*

- Supreme Court
  - Although Myriad “found an important and useful gene, . . . separating that gene from its surrounding genetic material is not an act of invention.”
  - “Myriad found the location of the BRCA1 and BRCA2 genes, . . . that discovery, by itself, does not render the BRCA genes ‘new . . . composition[s] of matter’ that are patent eligible.”

# *Myriad Genetics*

- In contrast:
  - cDNA sequences correspond to the naturally occurring DNA sequences except that certain non-coding sequences, or “introns,” are removed.
  - cDNA sequences are patent eligible because “the lab technician unquestionably creates something new when cDNA is made” because it is “distinct from the DNA from which it was derived” and “not a ‘product of nature.’”

# Patent Exhaustion

# Patent Exhaustion

- *Bowman V. Monsanto*, 133 S. Ct. 1761 (May 13, 2013)
  - The doctrine of patent exhaustion does not apply to replanting and harvesting of patented soybean seeds.
  - Holding *limited to this case* and may not apply to all “self-replicating technologies.”

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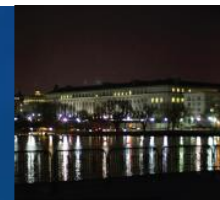
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