



Intellectual Property ADVISORY ■

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2013: Patent Cases and the Supreme Court

The Supreme Court has recently granted certiorari in three patent-related cases this term. These cases have important consequences that companies should consider as they move forward in considering their intellectual property strategy.

Medtronic Inc. v. Boston Scientific Corp.

No 12-1128

Oral Argument: November 5, 2013

Issue: Licensees to patents may determine that an existing product no longer implicates a licensed patent. This can be based on a licensee's determination that the patent is invalid, unenforceable or not infringed. In such instances, the licensee may pursue a declaratory judgment action to challenge the patent, while at the same time, continuing to pay the royalty—and thus preclude any claim of infringement by the patent owner. Under these circumstances, does the licensee bear the burden of establishing noninfringement, or does the patent owner bear the burden of establishing infringement?

Facts: The *Medtronic* case came about as a result of the Supreme Court's relatively recent decision in *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 137 (2007), that a patent licensee need not repudiate a patent license before seeking a declaratory judgment that the underlying licensed patent is not infringed. Medtronic was a licensee of two patents owned by Mirowski Family Ventures (MFV), both of which related to a biventricular pacemaker. Based on a prior contract, MFV had identified several Medtronic medical devices, which it believed implicated the two patents, and Medtronic had been making royalty payments into an escrow account for related licenses since 2003. Medtronic then filed a declaratory judgment action seeking a finding of noninfringement and invalidity for those two patents. Both parties alleged that the other had the burden relating to infringement. The district court held that the burden rested with the patentee to affirmatively prove infringement. The district court found that both patents were valid and enforceable, but that MFV had not proven that Medtronic's devices infringed. MFV appealed the finding of noninfringement to the Federal Circuit. The Federal Circuit reviewed the district court's ruling regarding burden of proof de novo.

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The Federal Circuit ruled that the burden rested on the licensee seeking the declaratory judgment. Traditionally, the burden rests on the party that owns the patent to prove that it is infringed. However, the Federal Circuit concluded that in the context of the license, it is the licensee who is attempting to change the status quo by escaping the license, and therefore should assume the burden. The circuit court then remanded to the district court with instructions that Medtronic affirmatively prove its noninfringement. Medtronic appealed the Federal Circuit ruling.

Implications: If the Federal Circuit's ruling is upheld, it will make declaratory actions of this type more costly and difficult for licensees since they will have the burden of proving that they do not infringe the patent, as opposed to the traditional structure of the patentee having the burden of showing infringement. As a result, licensees may seek more favorable terms in license agreements since there would be a higher cost and additional risk associated with maintaining the license while challenging the patent. For licensors, a reversal of the Federal Circuit's decision might increase the number of declaratory judgment actions repudiating licenses, which could make it harder to guarantee license-based revenue streams.

Octane Fitness v. Icon Health and Fitness

No. 12-1184

Petition Granted: October 1, 2013

Issue: Under 35 U.S.C. § 285, attorney's fees may be awarded in exceptional cases to the prevailing party. The Federal Circuit has construed this statute such that if the patentee/plaintiff does not commit litigation misconduct, prevailing defendants must show both that the case was objectively baseless and that it was brought in subjective bad faith in order to get attorneys' fees. The two-part test imposed on successful defendants sets a high bar, making the award of attorneys' fees rare. The Supreme Court has been asked to decide whether this two-part test improperly appropriates the district court's discretionary authority to find cases exceptional and award such fees, and asks the Supreme Court to eliminate the Federal Circuit's current two-part test.

Facts: Icon Health and Fitness filed a complaint alleging that two of Octane Fitness' elliptical machines infringed on Icon's patent. The patent claims at issue focus on the linkage system that connects the portion of an elliptical that the user stands on to the portion that guides the elliptical rotation. The district court found that the linkage systems were sufficiently different and granted Octane summary judgment of noninfringement. Octane further alleged that certain email evidence showed that Icon only brought suit so as to distract Octane before Icon released a new competitive elliptical onto the market. In light of this, Octane asked the court for a finding that the case was exceptional and an award of attorneys' fees. Citing the Federal Circuit's two-prong standard, the district court found that the case was neither objectively baseless, nor was there clear and convincing evidence of subjective bad faith, and denied the award of attorney fees. The Federal Circuit affirmed. Octane then appealed the Federal Circuit's decision.

Implications: If the Federal Circuit is upheld, clients acting as plaintiffs will retain the protections they currently have against exceptional case findings and awards of attorney fees. If the Federal Circuit is reversed and the Supreme Court invalidates the two-part test promulgated by the Federal Circuit, then trial courts

could have more discretion to award attorney fees to successful defendants. The threat of a successful Section 285 action could function as a litigation deterrent for certain plaintiffs, thus decreasing the likelihood of going to trial and reducing the pressure held by patent plaintiffs in settlement negotiations.

Highmark, Inc. v. Allcare Health Management Systems, Inc.

No. 12-1184

Petition Granted: October 1, 2013

Issue: This case also addresses 35 U.S.C. § 285. Here, the district court ruled that a case was objectively baseless and brought in subjective bad faith, and therefore found the case exceptional. The Federal Circuit reviewed that judgment de novo and overturned the findings, thus vacating the award of attorneys' fees. The issue presented to the Supreme Court is the level of deference that a district court's grant of attorneys' fees be given: de novo review or, as petitioner urges, a review for clear error.

Facts: Allcare owns a patent directed to health care management. Highmark sued Allcare in a declaratory judgment action seeking a finding of noninfringement, invalidity and unenforceability of that patent. The district court granted summary judgment on the issue of noninfringement for Highmark, which Allcare appealed. While the appeal was pending, Highmark moved for an exceptional case finding under Section 285 and for sanctions against Allcare's attorneys under Fed. R. Civ. P. 11. The district court found that the case was exceptional based on the litigation of two claims within the patent, as well as other litigation issues, and that the attorneys had violated Rule 11. The Rule 11 finding was later vacated, but the district court maintained the exceptional case finding and awarded attorneys' fees against Allcare. Allcare then appealed the Section 285 award.

The Federal Circuit reviewed the district court's exceptional case finding de novo. While it agreed with the district court as to the exceptional case finding for one of the patent claims, it reversed the district court's exceptional case finding for the other patent claim and the other litigation issues and correspondingly reduced the award of attorney fees awarded to Highmark. This opinion was met with a dissent, which argued for a deferential review of attorney fees and a corresponding affirmance of the district court's award in its entirety.

Implications: If the Federal Circuit is upheld and allowed de novo review of all Section 285 awards, any such awards issued by a district court will be uncertain until the threat of appeal has passed. If, however, the Supreme Court reverses and restricts the Federal Circuit's review to the more deferential standard of clear error, defendants and plaintiffs alike could have a greater level of certainty after a trial-level award of attorneys' fees. Thus, a reversal might improve the viability of Section 285 motions by reducing the likelihood and corresponding cost of appeal.

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