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SUPREME COURT CASES

The Supreme Court Upholds Prohibition on Charging Royalties After Patent Expiration

In *Kimble v. Marvel Entertainment LLC*, 576 U.S. ---- (2015), the Supreme Court declined to overrule its 1964 decision in *Brulotte v. Thys Company*, holding that a patentee cannot charge royalties for use of its invention after the patent's expiration date. In a 6-3 opinion authored by Justice Kagan, the Court upheld its long-standing prohibition on patent licenses calling for royalty payments after the patent expires. The Court stressed that *stare decisis*—"the idea that today's Court should stand by yesterday's decisions—is a 'foundation stone of the rule of law.'"

In reaffirming *Brulotte* and its 50 years of precedent, the Court explained that the *Brulotte* rule is easy to apply: "A court need only ask whether a licensing agreement provides royalties for post-expiration use of a patent. If not, no problem; if so, no dice." Although the *Brulotte* rule may prevent "some parties from entering into deals they desire," the Court noted that "parties can often find ways around *Brulotte*, enabling them to achieve those same ends." For example, "*Brulotte* allows a licensee to defer payments for pre-expiration use of a patent into the post-expiration period; all the decision bars are royalties for using an invention after it has moved into the public domain." Likewise, *Brulotte* permits royalties to "run until the last-running patent covered in the parties' agreement expires" and "post-expiration royalties are allowable so long as tied to a non-patent right—even when closely related to a patent." Finally, the court explained that "*Brulotte* poses no bar to business arrangements other than royalties—all kinds of joint ventures, for example—that enable parties to share the risks and rewards of commercializing an invention."

Kimble v. Marvel Entertainment LLC, 576 U.S. ---- (2015).

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FEDERAL CIRCUIT CASES

Federal Circuit Reserves a Finding of Non-Obviousness Where Claimed Invention Was the Predictable Combination of Prior Art Elements

In a jury trial in the Eastern District of Missouri, ABT secured a verdict that Emerson infringed ABT's claims covering thermostats that control periodic fan operation modes and that the asserted claims were not obvious. Emerson moved for JMOL that ABT's claims were obvious. The district court denied that motion. On appeal, in a decision authored by Judge Schall, the Federal Circuit reserved the denial of JMOL and held that the asserted claims were invalid for obviousness. The court vacated the judgment of infringement and remanded the case to the district court for dismissal.

The asserted claims were directed to controlling the operation of an HVAC system with a thermostat that periodically activates and deactivates a fan between heating or cooling cycles. Emerson relied on four prior art references to support its defense that the asserted claims were obvious. None of the prior art references taught all of the elements of the asserted claims, and the issue on appeal was whether a person of ordinary skill in the art would have been motivated to combine the references to arrive at the claimed invention. The court focused on the *KSR* test that addresses when a patent claims a structure known in the prior art that is altered by the mere substitution of one element for another. In such cases, the combination must do more than yield a predictable result. Applying this test, the court found that two of Emerson's prior art references disclosed thermostats with timers that could be modified by predetermined intervals that were taught in the other prior art references, to arrive at a predictable result. This rendered the claims obvious. The court also addressed the issue of finding motivation

to combine references when the references do not explicitly convey such a motivation. In these situations, the motivation to combine the prior art references can be found in the nature of the problem to be solved, and the court noted that this is particularly true with simpler mechanical technologies.

The court also addressed ABT's arguments that secondary considerations of non-obviousness support the validity of its claims. The court rejected ABT's arguments that the commercial success of Emerson's product supported non-obviousness because ABT failed to present any evidence that there was a nexus between the claims and Emerson's thermostats. There was no evidence that Emerson marketed its products on the basis of the claimed features or that the claimed features resulted in sales for Emerson. The court also rejected ABT's argument that its licensing of the asserted patent demonstrated commercial success because ABT presented no evidence that any licenses were taken on account of the merits of the invention claimed in the asserted patent.

ABT Sys., LLC v. Emerson Electric Co., 2014-1618, 2014-1700 (Fed. Cir. Aug. 19, 2015) (Prost, Clevenger, Schall).

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Federal Circuit Expands Test for Joint Direct Infringement of a Method Claim

On remand from the Supreme Court, the Federal Circuit reconsidered the test for direct infringement of a method claim, when multiple entities practice the steps of a method, and ruled that liability is not limited to "principal-agent relationships, contractual arrangements, and joint enterprise," as it had previously ruled, but that courts should also "consider whether all method steps can be attributed to a single entity."

In 2006, Akamai Technologies, Inc. (Akamai) filed a patent infringement action against Limelight alleging infringement of claimed methods for delivering content over the internet. Although the parties agreed that two of the method steps were performed by Limelight's customers, at trial, the jury found that Limelight directly infringed the method claims. Shortly thereafter, the Federal Circuit decided *Muniauction, Inc. v. Thomson Corp.*, 532 F.3d 1318 (Fed. Cir. 2008) and ruled therein, "where the actions of multiple parties combine to perform every step of a claimed method, the claim is directly infringed only if one party exercises 'control or direction' over the entire process such that every step is attributable to the controlling party, i.e., the 'mastermind.'" Citing *Muniauction*, Limelight moved for reconsideration, and the district court granted its motion, holding as a matter of law that limelight could not be liable for the actions of its customers. Akamai appealed.

A lengthy appellate history followed, which included a grant of *certiorari* and a remand from the Supreme Court, noting "the possibility that [the Federal Circuit] erred by too narrowly circumscribing the scope of § 271(a)." On remand, the Federal Circuit, in a panel decision, ruled that only a "single entity" can directly infringe a method claim, and that the "single entity" includes multiple entities only where "principal-agent relationships, contractual arrangements, [or a] joint enterprise" exist (i.e., where one party acts as a mastermind).

In the instant case, the Federal Circuit, sitting *en banc*, *sua sponte* vacated and reversed its panel's ruling, and expanded the test for joint direct infringement liability to include situations when "all method steps can be attributed to a single entity." Based on the particular facts before it in this case, the court then ruled that direct infringement liability applies "when an alleged infringer conditions participation in an activity or receipt of a benefit upon the performance of a step or steps of a patented method and established the manner or timing of that performance." The court also noted:

In the future, other factual scenarios may arise which warrant attributing others' performance of method steps to a single actor. Going forward, principles of attribution are to be considered in the context of the particular facts presented.

The court reinstated the jury's finding of direct infringement, reasoning that the jury heard "substantial evidence" to support its finding "that Limelight directed or controlled its customers' performance of each remaining method step." This evidence showed: (1) that limelight "requires all of its customers to sign a standard contract" that "delineates the steps [including the two claimed steps] customers must perform in they use [Limelight's] service"; (2) that Limelight gave its customers a "welcome letter" that "[told] the customer that a Technical Account Manager employed by Limelight [would] lead the implementation of Limelight's services"; (3) that instructions told customers how to integrate Limelight's services; (4) that installation guidelines gave customers information on how to perform the two claimed steps; and (5) that "Limelight's engineers continuously engage[d] with [its] customers' activities."

The court concluded: "Limelight's customers do not merely take Limelight's guidance and act independently on their own. Rather, Limelight establishes the manner and timing of its customers' performance so that customers can only avail themselves of the service upon their performance of the method steps."

Akamai Tech., Inc. v. Limelight Networks, Inc., No. 2009-1372 (Fed. Cir., Aug. 13, 2015) (*en banc*) (before Prost, C.J.; and Newman, Lourie, Linn, Dyk, Moore, O'Malley, Reyna, Wallach, and Hughes, J.) (*Per Curiam*).

- Author: [Brock Wilson](#)

Ruling on Patentability Issues under 35 U.S.C. § 101 is the Exception Rather than the Rule

Judge Payne in the Eastern District of Texas recently denied a motion to dismiss under § 101 as premature before a claim construction hearing. The court noted that, although “under certain circumstances, a determination of patent validity under section 101 may be made at the pleading stage on a motion to dismiss, the issue of patentable subject matter requires a legal analysis that can—and often does—contain underlying factual issues.” *Phoenix Licensing, LLC et al v. CenturyLink, Inc., et al.*, No. 2:14-cv-965, Order on Motion to dismiss, Dkt No. 184 at 3. (E.D. Tex. Aug. 17, 2015). The court observed that “[w]hile handling the issue of section 101 eligibility at the pleading stage is permissible, those issues are often inextricably tied to claim construction. Thus, it seems a definitive ruling on eligibility before claim construction is only warranted in narrow circumstances, making such a ruling the exception rather than the rule.” *Id.* at 4. The court found that “a proper [abstractness] analysis under *Mayo* would be premature and improper given the extent of the parties’ present claim construction disputes.” *Id.* at 5 (citing *Mayo Collaborative Services v. Prometheus Laboratories, Inc.*, 132 S.Ct. 1289, 1293-94 (2012)). Accordingly, the court denied the defendants’ motion to dismiss.

Phoenix Licensing, LLC et al v. CenturyLink, Inc., et al., No. 2:14-cv-965, Order on Motion to dismiss, Dkt No. 184 at 3. (E.D. Tex. Aug. 17, 2015).

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PATENT TRIAL AND APPEAL BOARD

PTAB Declines to Institute IPR of Two Patents Challenged by The Coalition for Affordable Drugs

On August 24, 2015, the Patent Trial and Appeal Board (PTAB) declined to institute *inter partes* review (IPR) based on two petitions filed by The Coalition for Affordable Drugs (coalition). The coalition is a wholly owned subsidiary of a hedge fund managed by Kyle Bass and has filed several petitions seeking IPR of patents covering a variety of pharmaceutical products. The IPR petitions denied on August 24 targeted patents owned by Acorda Therapeutics, Inc. Those patents cover Acorda’s multiple sclerosis drug Ampyra.

The coalition alleged several grounds of obviousness, each ground based on at least one alleged prior art poster presentation. The coalition argued that the posters were prior art based on statements made by the applicants in information disclosure statements submitted during prosecution of the patents. Acorda filed a preliminary response. In its response Acorda first alleged that the coalition filed its petition for an improper purpose. Acorda then argued, *inter alia*, the coalition failed to establish that the poster presentations were prior art.

The PTAB did not discuss Acorda’s allegation that the Coalition filed the petitions for an improper purpose. Instead, the PTAB analyzed whether the Coalition had made a threshold showing that the posters were “printed publications.” The PTAB first explained that submission of an IDS does not constitute an admission that a reference is prior art. The PTAB then explained that the Coalition had failed to introduce sufficient evidence related to the amount of time the poster was displayed, the expertise of the audience, or whether there was an expectation that anyone copied the poster. The PTAB also noted that the poster presented very dense material, and the more complex the material, the more difficult it would have been for members of the public to capture the material. At bottom, the PTAB held that the coalition had failed to introduce sufficient evidence that the references were prior art, and declined to institute review. The PTAB left for another day consideration of whether such petitions were filed for an improper purpose.

Coalition for Affordable Drugs (ADROCA) LLC v. Acorda Therapeutics, Inc., IPR2015-00817, IPR2015-00720 (PTAB Aug. 24, 2015).

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