

## Patent Cases High Court May Review: Part 2

*Law360, New York (June 14, 2016, 11:42 AM ET) --*

In this two-part article, we are reviewing the pending petitions for certiorari at the U.S. Supreme Court that are most likely to impact life sciences companies. In part 1, we discussed the petitions filed by Sequenom Inc. (patent ineligibility), Life Technologies Corp. (§ 271(f)(1)), and WesternGeco LLC (reasonable royalties). In part 2 of this article, we discuss the remaining petitions that will most likely impact the life sciences industry, and comment on the likely outcome of each petition.

### Medinol v. Cordis

Medinol Ltd. v. Cordis Corporation, et al., No. 15-998. Medinol filed a petition pertaining to whether the Supreme Court's decision in *Petrella v. Metro-Goldwyn-Mayer*, 134 S. Ct. 1962 (2014), changed the contours of the availability of laches as an affirmative defense in patent infringement cases.

In the underlying action, Medinol sued Cordis alleging that two stents sold by Cordis infringed four of Medinol's patents. Cordis asserted that Medinol's claims were barred under the equitable doctrine of laches. After bifurcating the action and holding a four-day trial pertaining exclusively to laches, the district court held that laches barred Medinol's infringement claims, even though the claims were asserted within the Patent Act's six-year statute of limitations.

Two months after the district court's decision, the Supreme Court held in *Petrella* that laches cannot bar damages claims that are timely asserted under the Copyright Act's statute of limitations. After the time for filing an appeal of the underlying dismissal passed, Medinol sought relief from judgment under Rule 60(b) on the theory that *Petrella* constituted an intervening change in the law, and the district court denied the Rule 60 motion relying on the Federal Circuit's decision in *SCA Hygiene Prods. Aktiebolag v. First Quality Baby Prods. LLC*, 767 F.3d 1339, 1345 (Fed. Cir. 2014), superseded by 807 F.3d 1311 (Fed. Cir. 2015) (en banc).

After the Federal Circuit issued an en banc decision in *SCA* and held that laches could be asserted as a defense to a patent infringement claim, the parties stipulated to summary affirmance. Medinol then filed its petition with the Supreme Court, asking it to review the question of whether judges may use the equitable defense of laches to bar legal claims for damages that are timely asserted under the express terms of the Patent Act.



Andrew C. Whitney



Richard de Bodo



Amy M. Dudash

In its petition, Medinol asserted that Petrella made clear that judges cannot adopt individualized rules to undermine the timeline Congress set for filing suit. According to Medinol, this is precisely what the Federal Circuit did in SCA when it held laches could bar timely asserted patent infringement claims by relying on a wholly unsupported reading of § 282 of the Patent Act, which does not even expressly mention laches. Recognizing that its petition depended on the Federal Circuit's ruling in SCA (in which a petition for certiorari had already been filed), Medinol requested that the Supreme Court consider Medinol's petition in tandem with (or instead of) the petition in SCA.

In its opposition, Cordis attempted to refocus the issue for appeal. Cordis argued that Medinol improperly attempted to "ride on the coattails" of the SCA petition and reframe its appeal as one on the merits of the underlying judgment on the application of laches, when in fact the appeal pertained solely to the district court's exercise of its discretion to deny the Rule 60 motion on the basis of Federal Circuit precedent. Cordis claimed that a decision in Medinol's favor on the question presented would not alter the outcome in the underlying case because such decision would not impact Rule 60 considerations, including, *inter alia*, extraordinary circumstances to set aside the ruling supported by controlling authority.

Ultimately, the Supreme Court should not grant Medinol's petition, as the procedural posture of the underlying action is not conducive to review of the narrow legal issue presented because legal analysis regarding applicability of laches may be muddied by concerns regarding other Rule 60 factors. A better procedural vehicle for review is the appeal of the SCA decision itself — an appeal that the Supreme Court agreed to accept on May 2, 2016. In light of the Supreme Court's decision to grant certiorari in the SCA appeal, it appears likely that the Supreme Court will hold the Medinol petition on its docket until it decides the SCA appeal. If the Federal Circuit's SCA decision is vacated, the Supreme Court can then summarily vacate the Medinol decision and remand so the district court can revisit its decision on the Rule 60 motion.

### **Interval v. Lee**

Interval Licensing LLC v. Michelle K. Lee, No. 15-716. This case involves the appropriate claim construction standard that the U.S. Patent and Trademark Office should use in *ex parte* re-examination proceedings. The petitioner, Interval Licensing, argued that the PTO incorrectly applies the broadest reasonable interpretation standard in such proceedings, and instead, the PTO should apply the plain and ordinary meaning standard that district courts apply in patent infringement actions. This case is similar to another case that is already pending before the Supreme Court, *Cuozzo Speed Techs. LLC v. Lee*, No. 15-466, which addresses the same issue, except that it relates to *inter partes* review proceedings as opposed to *ex parte* re-examinations.

In support of its petition, Interval argued that the plain and ordinary meaning standard, and not the BRI standard, should apply because having different standards could result in different outcomes depending on whether you are in district court or before the PTO. Interval stated that *ex parte* re-examination proceedings are "part and parcel" of the litigation process in federal courts and the standard should be the same as what the courts use. Interval also argued that the BRI standard makes no sense in the *ex parte* re-examination context because it was devised in the context of initial patent examinations, where there is a back and forth between the patent holder and the examiner over what the patent means and what the patent holder is trying to claim. Although Interval conceded that amendments during *ex parte* re-examinations may occur, it argued that such amendments are not freely allowed and they can cause problems, such as unintended claim scope and the relinquishment of damages.

In response to Interval's petition, the United States stated that PTO properly applied the BRI standard in the case. It said that under 35 U.S.C. § 305, ex parte re-examinations must be "conducted according to the procedures established for initial examination," which include the application of the BRI standard.

Although the parties would like the court to come out differently in the end, they are unanimous that, because of the similarities to the *Cuozzo* case that is already before the court, the court should hold the Interval Licensing petition for certiorari until after *Cuozzo* is decided, and then direct an appropriate disposition of this case.

Because both parties requested that the court hold the petition, and because of the potential likely impact of the upcoming *Cuozzo* decision, it is highly likely that the court will hold this case until after it decides *Cuozzo*. In any case, the decision in *Cuozzo* on the claim construction standard in post-grant proceedings is likely to have a significant impact on a large number of IPR proceedings, ex parte re-examinations, and post-grant review proceedings of interest to life sciences companies.

### **Systems v. Nordock**

*Systems Inc. v. Nordock Inc.*, No. 15-978. Systems has asked the Supreme Court to review and reverse a Federal Circuit standard requiring patent infringers to pay design patent holders all profits from an infringing product rather than the profits attributable to the patented component. The petition is brought in light of *Apple Inc. v. Samsung Electronics Co. Ltd.*, 786 F.3d 983 (Fed. Cir. 2015), in which a petition for certiorari was granted on the similar question of "[w]here a design patent is applied to only a component of a product, should an award of infringer's profits be limited to those profits attributable to the component?"

Nordock and Systems are competitors in the loading dock equipment industry. This dispute involves the alleged infringement of Nordock's U.S. Design Patent No. D579,754, which claims the ornamental design of a lip and hinge plate for a dock leveler. Nordock accused six of System's dock levelers of infringing the D'754 patent. The jury found certain of System's dock levelers infringed the patent, and awarded damages related only to the portion of the dock levelers claimed in the patent. The Federal Circuit, relying on its decision in *Apple v. Samsung*, vacated the jury's findings and remanded for a new trial on damages, holding the jury should have awarded System's total profits for the infringing dock levelers.

In its petition, Systems argued that damage awards using the Federal Circuit's interpretation of 35 U.S.C. § 289 are "undeniably punitive," contrary to the legislative history and evolution of this statute. Systems also said that "[t]he Federal Circuit's interpretation of Section 289 results in a mechanical award of defendant's 'total profits' regardless of whether those profits bear any relation to the actual injury suffered by the patent holder."

Systems also argued that the Federal Circuit's interpretation of § 289 improperly awards design patent owners damages on disclaimed subject matter, and "has created an environment where design patent owners are hurrying to cash in on the exorbitant damages now made available."

In response, Nordock argued that the "legislative history clearly demonstrates damages for an article of manufacture that infringes a design patent are not be apportioned." The petition, relying on *Gorham Co. v. White*, 81 U.S. (14 Wall.) 511 (1871), also stated that the term "article of manufacture" "has long been interpreted to mean a complete product, not merely a portion of the product."

Given that the Supreme Court has already granted certiorari in *Apple, Inc. v. Samsung Electronics Co.*, it

seems unlikely that the Court will hear the related petition brought by Systems as well. However, if certiorari is granted, this case could have an impact on design patents affecting medical devices, diagnostic devices, and other similar products in the life sciences field.

### **Newegg v. MacroSolve**

Newegg Inc. v. MacroSolve Inc., No. 15-1369. In a recent petition for certiorari filed in *Newegg v. MacroSolve*, Newegg claims that the Eastern District of Texas has “repeatedly and blatantly” ignored the Supreme Court’s framework in *Octane Fitness LLC v. ICON Health & Fitness Inc.*, 134 S. Ct. 1749 (2014), when deciding petitions for attorneys’ fees in patent infringement cases by applying a “special, heightened burden of proof” that gives nonpracticing entities “a free pass.”

The underlying case involved a claim of patent infringement filed by MacroSolve, a “patent assertion entity,” regarding U.S. Patent No. 7,822,816, which discloses a system and method for data management for transmission of a questionnaire. MacroSolve sued Newegg — an online retailer of computer products — and nine other defendants. All other defendants settled with MacroSolve, but Newegg refused to do so and counterclaimed for invalidity and noninfringement. Unable to settle, MacroSolve voluntarily dismissed its claims against Newegg with prejudice and entered into a covenant not to sue Newegg on the ’816 Patent, largely mooted Newegg’s counterclaims.

Having spent \$650,000 defending the suit, Newegg moved for attorneys’ fees. Applying the Supreme Court’s standard in *Octane*, a magistrate judge denied Newegg’s fee petition. Over objections and a motion for reconsideration, the magistrate judge’s ruling was affirmed by the district judge. Newegg appealed, and the Federal Circuit affirmed denial of the fee petition in a one-sentence order.

Newegg then filed a petition for certiorari raising two questions: (1) whether a court may create and apply a special, heightened burden of proof for motions for attorneys’ fees brought by defendants under 35 U.S.C. § 285 whenever the patent plaintiff avoids adjudication on the merits by dismissing its case before judgment and (2) whether a rule requiring proof by clear and convincing evidence that a lawsuit is frivolous improperly limits or circumvents the Supreme Court’s decision in *Octane*?

In its petition, Newegg implored the Supreme Court to grant review because, absent review, the Eastern District of Texas — venue for 40 percent of United States patent litigation — will “functionally eviscerate the intent of *Octane*.” According to Newegg, the Federal Circuit has turned a blind eye to the Eastern District of Texas’s practices with respect to fee awards, and, thus, the Supreme Court needs to step in.

In support of its petition, Newegg asserted three primary arguments:

First, Newegg argued that the Eastern District of Texas has violated *Octane* by adopting a rule, which provides that for a case dismissed prior to trial to be designated exceptional for a fee award, evidence of the frivolity of the claims must be reasonably clear without requiring a “mini-trial” on the merits. This rule is in direct violation of *Octane*’s requirement that there be a “case-by-case exercise of discretion” and not a “rigid and mechanical formulation.” Under this rule, a district court is free to wholly ignore the merits of the underlying action under the guise of claiming that such evidence does not rise to the level of making a reasonably clear case of frivolity.

Second, it argued that the Eastern District of Texas’s rule reinstated aspects of prior precedent that were explicitly overruled by the Supreme Court in *Octane*. Specifically, requiring a showing of “reasonable clarity” with respect to the frivolity of claims imposes a clear and convincing evidence standard that the

Supreme Court has already rejected. Moreover, requiring that the underlying lawsuit be frivolous undermines the Supreme Court's overruling of former heightened standard requiring a case to be baselessness in order to be eligible for a fee award.

Third, Newegg argued that the Eastern District of Texas rule unfairly burdens defendants by encouraging early payment of settlement for nuisance claims.

MacroSolve waived its right to respond to Newegg's petition. The Atlantic Legal Foundation, Consumer Technology Association and Vizio Inc. submitted an amicus brief supporting Newegg's petition and argued that the Texas rule threatened an important safeguard against frivolous patent litigation and unduly favored plaintiffs.

Ultimately, because the decision to award attorneys' fees in patent cases is discretionary, it seems unnecessary for the Supreme Court to provide additional guidance just two years after it provided guidance in *Octane*. Although Newegg asserts some broad-reaching arguments regarding the Eastern District of Texas's seemingly pro-plaintiff stance, it appears that neither the Eastern District of Texas nor the Federal Circuit have completely abdicated a review of the merits of the underlying action in determining whether to deem a case exceptional such that attorneys' fees may be awarded. However, in the future, if there is statistical evidence demonstrating that defendants are de facto precluded from recovering fees in voluntarily dismissed patent cases, then this issue will likely become appropriate for review by the Supreme Court to ensure the lower courts are properly applying *Octane*.

—By Andrew C. Whitney, Richard de Bodo, Amy M. Dudash, Frederick G. Vogt III and Jessica A. Stow, Morgan Lewis & Bockius LLP

*Andrew Whitney is a partner in Morgan Lewis' Philadelphia office. Richard de Bodo is a partner in the firm's Santa Monica, California, office. Amy Dudash, Frederick Vogt, Ph.D., and Jessica Stow are associates in the firm's Philadelphia office.*

*The opinions expressed are those of the author(s) and do not necessarily reflect the views of the firm, its clients, or Portfolio Media Inc., or any of its or their respective affiliates. This article is for general information purposes and is not intended to be and should not be taken as legal advice.*

---