Important IP Cases in 2015, Part One

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Several intellectual property cases this year raise important patent, copyright, and trademark law issues—this month’s column focuses on the patent cases.

In the past two years, US courts have been busy deciding some fundamental issues in intellectual property law. The Supreme Court has tackled more IP cases than usual, perhaps due to IP’s significant economic role; settling some of the more perplexing IP questions should improve the law’s predictability and stability, ideally promoting growth and prosperity.

A handful of recent patent law cases that have come before the Court are of special interest because their outcomes might significantly impact how business is conducted—particularly in the way royalties are determined or infringement suits are litigated. The Court decided one case in January 2015, and it will hear arguments on the other two in March and will decide those cases by the end of June. The result of these decisions will likely influence the strategies that businesses use for licensing and protecting their IP.

CLAIM CONSTRUCTION

On 20 January 2015, the Supreme Court issued its decision in Teva Pharmaceuticals USA, Inc. v. Sandoz, Inc., a case dealing with patent claim construction. This is the process used to determine the meaning of an issued patent’s claims, which are the numbered paragraphs at the end of the patent that define the patented invention using precise legal terms.

To prove infringement, a patent owner must show that the claims describe the products accused of infringement. But first, both the patent owner and the accused infringer must present arguments on what the claims should mean. This occurs partway through a patent infringement lawsuit and before trial in US district court. The court conducts a so-called Markman hearing (named after the case that established the procedure), during which the patent owner and accused infringer present their arguments. Typically, the patent owner presses for a meaning that will cover the accused products, while the accused infringer will usually argue for a meaning that would exclude them.

After each side presents its arguments to the judge—no jury is involved at this point—the judge will issue a ruling...
The Federal Circuit’s decision in Commil created what some called an “escape hatch from liability.”

The effect of this ruling will become clearer as time passes. It might become less likely for the Federal Circuit to reverse a district court’s Markman ruling, in which case patent litigants will probably place even more emphasis on the district court’s Markman proceedings because the days of getting any sort of second chance at claim construction might be over.

INDUCED INFRINGEMENT

The Supreme Court is scheduled to hear oral arguments on 31 March 2015 for two other patent cases. The first case, Commil USA, LLC v. Cisco Systems, Inc., deals with a defense to induced infringement.

A party that “induces” another to infringe that patent can be held liable. Inducement can be in the form of instructions that describe how to make or use an item that’s covered by a patent. Commil sued Cisco claiming that Cisco induced its customers to infringe a Commil patent on a method of handoffs in wireless networks. Commil won its case in district court, but Cisco appealed to the Federal Circuit, arguing that its good-faith belief in the patent’s invalidity was a defense to a claim of induced infringement. The Federal Circuit agreed with Cisco and reversed the verdict. Commil then appealed the case to the Supreme Court.

ROYALTIES

The second patent case that the Supreme Court is scheduled to hear on 31 March 2015, Kimble v. Marvel Enterprises, concerns royalties.

When someone other than the patent owner wants to make, use, or sell a product that the patent covers, that person usually needs to get a license from the patent owner. In return for the license, the patent owner is paid a royalty, which might be a few percent of the price of each product that’s made, used, or sold.

A patent, however, has a limited lifespan. In the US, a patent’s “term”—the period during which it remains in force—is usually 20 years from the date the inventor filed the application for that patent. At the end of the term,
the patent expires and can’t be infringed. At that point anyone can take advantage of the patent.

Back in 1964, the Supreme Court ruled in *Brulotte v. Thys Co.* that a patent owner can’t collect royalties on a patent that’s expired. Consequently, parties who negotiate licensing agreements have to be careful that they don’t inadvertently write those agreements to require payments after expiration. Although that might be straightforward when the license is for one patent, it’s very complicated when many patents, all having different expiration dates, become part of the same agreement. Also, some agreements include other types of IP in addition to patents, such as trade secrets and know-how. Determining how to structure the royalties in such agreements is even more complex because those other types of IP might not have expiration dates.

In *Kimble*, the plaintiff had a patent on a toy that shot string foam out of a glove. He licensed it and some other, nonpatent rights to Marvel, the owner of the Spider-Man comic character. A dispute arose over the amount of royalties due, and the district court ruled that all royalties were to stop when the patent expired. In other words, the royalties for the nonpatent rights were deemed to end on the same day as the royalties for the patent rights. Kimble appealed, but the district court's decision was affirmed. Kimble then asked the Supreme Court to take the case.

There are several economic arguments that have been made in support of overturning *Brulotte* and allowing for post-expiration royalties. Arguments opposed focus on the possibility of artificially extending a patent’s term beyond twenty years, effectively preventing the public from freely taking advantage of the patented invention. Because of the significant impact that the Supreme Court’s decision in *Kimble* might have on companies’ licensing practices and the substantial sums of money implicated in license agreements, this case is one to watch.

In addition to these patent cases, the Supreme Court will also be hearing a few important copyright and trademark cases in 2015. Those will be covered in the second part of this column.

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