

2016 Update

for

Merges & Duffy: Patent Law and Policy (6th ed. 2012)

Table of Contents

Chapter 4: Disclosure and Enablement	1
D. Definite Claims	1
<i>Nautilus, Inc. v. Biosig Instruments, Inc.</i> (S.Ct. 2014)	1
Notes and Comments on <i>Nautilus</i>	7
Chapter 8: Infringement	9
B. Interpreting Claims	9
1. Basic Doctrine.....	9
Note on <i>Williamson v. Citrix</i> . (Fed. Cir. 2015)	9
4. Joint and Divided Infringement	10
<i>Limelight Networks, Inc. v. Akamai Technologies, Inc.</i> (S.Ct. 2014).....	10
Notes and Comments on <i>Limelight</i>	15
5. Procedural Aspects of Claim Interpretation	16
<i>Teva v. Sandoz</i> (S.Ct. 2015).....	16
Notes and Questions on <i>Teva</i>	22
G. Indirect Infringement	23
<i>Commil USA, LLC v. Cisco Systems</i> (S.Ct. 2015).....	23
Notes and Questions on <i>Commil</i>	29
Chapter 9: Remedies	31
A. Injunctive Relief	31
Note on Injunction Statistics After <i>eBay</i>	31
D. Attorney Fees in Exceptional Cases	31
<i>Octane Fitness, LLC. v. Icon Health & Fitness, Inc.</i> (S.Ct. 2014).....	31
<i>Highmark Inc. v. Allcare Health Management System, Inc.</i> (S.Ct. 2014).....	36
E. Enhanced Damages & Willful Infringement	38
<i>Halo Electronics, Inc v. Pulse Electronics, Inc.</i> (S.Ct. 2016).....	39
Notes on <i>Halo</i>	44
F. Patent Marking: Statutory Notice	46
35 U.S.C § 287.....	46
Notes on Marking.....	46
Chapter 10: The Legal Process of the Patent System	48
A. The Allocation of Power	48
Note on <i>The Overruling of Holmes Group</i>	48
Addition to Note on “Splitting the Federal Circuit’s Jurisdiction”	48

C. Reexamination and Other Post-Issuance Reviews	49
<i>Cuozzo Speed Technologies LLC v. Lee</i>	49
Notes on Cuozzo and the AIA’s New Administrative Processes	58
Exercise: Administrative Processes Under the AIA	61
Answers to Exercise	64
Chapter 12: Antitrust and Patent Misuse	75
A. Control Beyond a Patent’s Scope	75
2. Temporal Extensions	75
Note on <i>Kimble v. Marvel Enterprises</i> (S.Ct. 2015).....	75
B. Exhaustion and the “First Sale” Doctrine	78
<i>Bowman v. Monsanto Co.</i> (S.Ct. 2013).....	78
Notes and Questions on <i>Bowman</i>	81
Note on <i>Lexmark Int’l. v. Impression Prod.</i> (Fed. Cir. 2016) (<i>en banc</i>).....	82

Chapter 4: Disclosure and Enablement

Chap. 4.D: In place of the *Orthokinectics v. Safety Travel Chairs* case (p. 317), insert the new case:

Nautilus, Inc. v. Biosig Instruments, Inc.

134 S.Ct. 2120 (2014)

Justice GINSBURG delivered the opinion of the Court.

The Patent Act requires that a patent specification “conclude with one or more claims *particularly pointing out and distinctly claiming* the subject matter which the applicant regards as [the] invention.” 35 U.S.C. § 112, ¶ 2 (2006 ed.) (emphasis added). This case, involving a heart-rate monitor used with exercise equipment, concerns the proper reading of the statute's clarity and precision demand. According to the Federal Circuit, a patent claim passes the § 112, ¶ 2 threshold so long as the claim is “amenable to construction,” and the claim, as construed, is not “insolubly ambiguous.” 715 F.3d 891, 898–899 (2013). We conclude that the Federal Circuit's formulation, which tolerates some ambiguous claims but not others, does not satisfy the statute's definiteness requirement. In place of the “insolubly ambiguous” standard, we hold that 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 about the scope of the invention. Expressing no opinion on the validity of the patent-in-suit, we remand, instructing the Federal Circuit to decide the case employing the standard we have prescribed.

I

Authorized by the Constitution “[t]o promote the Progress of Science and useful Arts, by securing for limited Times to ... Inventors the exclusive Right to their ... Discoveries,” Art. I, § 8, cl. 8, Congress has enacted patent laws rewarding inventors with a limited monopoly. “Th[at] monopoly is a property right,” and “like any property right, its boundaries should be clear.” *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722, 730 (2002). See also *Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 373 (1996) (“It has long been understood that a patent must describe the exact scope of an invention and its manufacture....”). Thus, when Congress enacted the first Patent Act in 1790, it directed that patent grantees file a written specification “containing a description ... of the thing or things ... invented or discovered,” which “shall be so particular” as to “distinguish the invention or discovery from other things before known and used.” Act of Apr. 10, 1790, § 2, 1 Stat. 110.

The patent laws have retained this requirement of definiteness even as the focus of patent construction has shifted. Under early patent practice in the United States, we have recounted, it was the written specification that “represented the key to the patent.” *Markman*, 517 U.S., at 379. Eventually, however, patent applicants began to set out the invention's scope in a separate section known as the “claim.” See generally 1 R. Moy, *Walker on Patents* § 4.2, pp. 4–17 to 4–20 (4th ed. 2012). The Patent Act of 1870 expressly conditioned the receipt of a patent on the inventor's inclusion of one or more such claims, described with particularity and distinctness. See Act of July 8, 1870, § 26, 16 Stat. 201 (to obtain a patent, the inventor must “particularly point out and distinctly claim the part, improvement, or combination which [the inventor] claims as his invention or discovery”).

The 1870 Act's definiteness requirement survives today, largely unaltered. Section 112 of the Patent Act of 1952, applicable to this case, requires the patent applicant to conclude the specification with “one or more claims particularly pointing out and distinctly claiming the subject matter which the applicant regards as his invention.” 35 U.S.C. § 112, ¶ 2 (2006 ed.). A lack of definiteness renders invalid “the patent or any claim in suit.” § 282, ¶ 2(3).

II A

The patent in dispute, U.S. Patent No. 5,337,753 ('753 patent), issued to Dr. Gregory Lekhtman in 1994 and assigned to respondent Biosig Instruments, Inc., concerns a heart-rate monitor for use during exercise. Previous heart-rate monitors, the patent asserts, were often inaccurate in measuring the electrical signals accompanying each heartbeat (electrocardiograph or ECG signals). The inaccuracy was caused by electrical signals of a different sort, known as electromyogram or EMG signals, generated by an exerciser's skeletal muscles when, for example, she moves her arm, or grips an exercise monitor with her hand. These EMG signals can “mask” ECG signals and thereby impede their detection.

Dr. Lekhtman's invention claims to improve on prior art by eliminating that impediment. The invention focuses on a key difference between EMG and ECG waveforms: while ECG signals detected from a user's left hand have a polarity opposite to that of the signals detected from her right hand, EMG signals from each hand have the same polarity. [From footnote: This difference in polarity occurs because the heart is not aligned vertically in relation to the center of the body; the organ tilts leftward from apex to bottom.] The patented device works by measuring equalized EMG signals detected at each hand and then using circuitry to subtract the identical EMG signals from each other, thus filtering out the EMG interference.

As relevant here, the '753 patent describes a heart-rate monitor contained in a hollow cylindrical bar that a user grips with both hands, such that each hand comes into contact with two electrodes, one “live” and one “common.” The device is illustrated in figure 1 of the patent, id., at 41, reproduced [at the end of] this opinion.

Claim 1 of the '753 patent, which contains the limitations critical to this dispute, refers to a “heart rate monitor for use by a user in association with exercise apparatus and/or exercise procedures.” Id., at 61. The claim “comprise[s],” among other elements, an “elongate member” (cylindrical bar) with a display device; “electronic circuitry including a difference amplifier”; and, on each half of the cylindrical bar, a live electrode and a common electrode “mounted ... in spaced relationship with each other.” Ibid. [In Figure 1 from the patent, the live electrodes are identified by numbers 9 and 13, and the common electrodes, by 11 and 15.]

The claim sets forth additional elements, including that the cylindrical bar is to be held in such a way that each of the user's hands “contact[s]” both electrodes on each side of the bar. Id., at 62. Further, the EMG signals detected by the two electrode pairs are to be “of substantially equal magnitude and phase” so that the difference amplifier will “produce a substantially zero [EMG] signal” upon subtracting the [EMG from the ECG] signals.

B

The dispute between the parties arose in the 1990's, when Biosig allegedly disclosed the patented technology to StairMaster Sports Medical Products, Inc. According to Biosig, StairMaster, without ever obtaining a license, sold exercise machines that included Biosig's patented technology, and petitioner Nautilus, Inc., continued to do so after acquiring the

StairMaster brand. In 2004, based on these allegations, Biosig brought a patent infringement suit against Nautilus in the U.S. District Court for the Southern District of New York.

With Biosig's lawsuit launched, Nautilus asked the U.S. Patent and Trademark Office (PTO) to reexamine the '753 patent. The reexamination proceedings centered on whether the patent was anticipated or rendered obvious by prior art—principally, a patent issued in 1984 to an inventor named Fujisaki, which similarly disclosed a heart-rate monitor using two pairs of electrodes and a difference amplifier. Endeavoring to distinguish the '753 patent from prior art, Biosig submitted a declaration from Dr. Lekhtman. The declaration attested, among other things, that the '753 patent sufficiently informed a person skilled in the art how to configure the detecting electrodes so as “to produce equal EMG [signals] from the left and right hands.” *Id.*, at 160. Although the electrodes' design variables—including spacing, shape, size, and material—cannot be standardized across all exercise machines, Dr. Lekhtman explained, a skilled artisan could undertake a “trial and error” process of equalization. This would entail experimentation with different electrode configurations in order to optimize EMG signal cancellation. [Dr. Lekhtman's declaration also referred to an expert report prepared by Dr. Henrietta Galiana, Chair of the Department of Biomedical Engineering at McGill University, for use in the infringement litigation. That report described how Dr. Galiana's laboratory technician, equipped with a wooden dowel, wire, metal foil, glue, electrical tape, and the drawings from the '753 patent, was able in two hours to build a monitor that “worked just as described in the ... patent.” *Id.*, at 226.] In 2010, the PTO issued a determination confirming the patentability of the '753 patent's claims.

Biosig thereafter reinstituted its infringement suit, which the parties had voluntarily dismissed without prejudice while PTO reexamination was underway. In 2011, the District Court conducted a hearing to determine the proper construction of the patent's claims, see *Markman v. Westview Instruments, Inc.*, 517 U.S. 370 (1996) (claim construction is a matter of law reserved for court decision), including the claim term “in spaced relationship with each other.” According to Biosig, that “spaced relationship” referred to the distance between the live electrode and the common electrode in each electrode pair. Nautilus, seizing on Biosig's submissions to the PTO during the reexamination, maintained that the “spaced relationship” must be a distance “greater than the width of each electrode.” The District Court ultimately construed the term to mean “there is a defined relationship between the live electrode and the common electrode on one side of the cylindrical bar and the same or a different defined relationship between the live electrode and the common electrode on the other side of the cylindrical bar,” without any reference to the electrodes' width.

Nautilus moved for summary judgment, arguing that the term “spaced relationship,” as construed, was indefinite under § 112, ¶ 2. The District Court granted the motion. Those words, the District Court concluded, “did not tell [the court] or anyone what precisely the space should be,” or even supply “any parameters” for determining the appropriate spacing.

The Federal Circuit reversed and remanded. A claim is indefinite, the majority opinion stated, “only when it is ‘not amenable to construction’ or ‘insolubly ambiguous.’ ” 715 F.3d 891, 898 (2013) (quoting *Datamize, LLC v. Plumtree Software, Inc.*, 417 F.3d 1342, 1347 (C.A.Fed.2005)). Under that standard, the majority determined, the '753 patent survived indefiniteness review. Considering first the “intrinsic evidence”—i.e., the claim language, the specification, and the prosecution history—the majority discerned “certain inherent parameters of the claimed apparatus, which to a skilled artisan may be sufficient to understand the metes and bounds of ‘spaced relationship.’ ” 715 F.3d, at 899. These sources of meaning, the majority explained, make plain that the distance separating the live and common electrodes on each half of the bar “cannot be greater than the width of a user's hands”; that is so “because claim 1 requires

the live and common electrodes to independently detect electrical signals at two distinct points of a hand.” Ibid. Furthermore, the majority noted, the intrinsic evidence teaches that this distance cannot be “infinitesimally small, effectively merging the live and common electrodes into a single electrode with one detection point.” Ibid. The claim’s functional provisions, the majority went on to observe, shed additional light on the meaning of “spaced relationship.” Surveying the record before the PTO on reexamination, the majority concluded that a skilled artisan would know that she could attain the indicated functions of equalizing and removing EMG signals by adjusting design variables, including spacing.

In a concurring opinion, Judge Schall reached the majority’s result employing “a more limited analysis.” Id., at 905. Judge Schall accepted the majority’s recitation of the definiteness standard, under which claims amenable to construction are nonetheless indefinite when “the construction remains insolubly ambiguous.” Ibid. (internal quotation marks omitted). The District Court’s construction of “spaced relationship,” Judge Schall maintained, was sufficiently clear: the term means “there is a fixed spatial relationship between the live electrode and the common electrode” on each side of the cylindrical bar. Ibid. Judge Schall agreed with the majority that the intrinsic evidence discloses inherent limits of that spacing. But, unlike the majority, Judge Schall did not “presum[e] a functional linkage between the ‘spaced relationship’ limitation and the removal of EMG signals.” Id., at 906. Other limitations of the claim, in his view, and not the “‘spaced relationship’ limitation itself,” “included a functional requirement to remove EMG signals.” Ibid.

We granted certiorari, and now vacate and remand.

III A

Although the parties here disagree on the dispositive question—does the ’753 patent withstand definiteness scrutiny—they are in accord on several aspects of the § 112, ¶ 2 inquiry. First, definiteness is to be evaluated from the perspective of someone skilled in the relevant art. See, e.g., *General Elec. Co. v. Wabash Appliance Corp.*, 304 U.S. 364, 371 (1938). See also § 112, ¶ 1 (patent’s specification “shall contain a written description of the invention, and of the manner and process of making and using it, in such full, clear, concise, and exact terms as to enable *any person skilled in the art* to which it pertains, or with which it is most nearly connected, to make and use the same” (emphasis added)). Second, in assessing definiteness, claims are to be read in light of the patent’s specification and prosecution history. See, e.g., *United States v. Adams*, 383 U.S. 39, 48–49 (1966) (specification); *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722, 741 (2002) (prosecution history). Third, “[d]efiniteness is measured from the viewpoint of a person skilled in [the] art *at the time the patent was filed*.” Brief for Respondent 55 (emphasis added).

The parties differ, however, in their articulations of just how much imprecision § 112, ¶ 2 tolerates. In *Nautilus*’ view, a patent is invalid when a claim is “ambiguous, such that readers could reasonably interpret the claim’s scope differently.” Brief for Petitioner 37. Biosig and the Solicitor General would require only that the patent provide reasonable notice of the scope of the claimed invention. See Brief for Respondent 18; Brief for United States as Amicus Curiae 9–10.

Section 112, we have said, entails a “delicate balance.” *Festo*, 535 U.S., at 731. On the one hand, the definiteness requirement must take into account the inherent limitations of language. See *ibid.* Some modicum of uncertainty, the Court has recognized, is the “price of ensuring the appropriate incentives for innovation.” Id., at 732. One must bear in mind, moreover,

that patents are “not addressed to lawyers, or even to the public generally,” but rather to those skilled in the relevant art. *Carnegie Steel Co. v. Cambria Iron Co.*, 185 U.S. 403, 437 (1902) (also stating that “any description which is sufficient to apprise [steel manufacturers] in the language of the art of the definite feature of the invention, and to serve as a warning to others of what the patent claims as a monopoly, is sufficiently definite to sustain the patent”).

At the same time, a patent must be precise enough to afford clear notice of what is claimed, thereby “‘appris[ing] the public of what is still open to them.’” *Markman*, 517 U.S., at 373 (quoting *McClain v. Ortmyer*, 141 U.S. 419, 424 (1891)). Otherwise there would be “[a] zone of uncertainty which enterprise and experimentation may enter only at the risk of infringement claims.” *United Carbon Co. v. Binney & Smith Co.*, 317 U.S. 228, 236 (1942). And absent a meaningful definiteness check, we are told, patent applicants face powerful incentives to inject ambiguity into their claims. See Brief for Petitioner 30–32 (citing patent treatises and drafting guides). See also Federal Trade Commission, *The Evolving IP Marketplace: Aligning Patent Notice and Remedies With Competition* 85 (2011) (quoting testimony that patent system fosters “an incentive to be as vague and ambiguous as you can with your claims” and “defer clarity at all costs”). [Online at <http://www.ftc.gov/sites/default/files/documents/reports/evolving-ip-marketplace-aligning-patent-notice-and-remedies-competition-report-federal-trade/110307patentreport.pdf> .] Eliminating that temptation is in order, and “the patent drafter is in the best position to resolve the ambiguity in ... patent claims.” *Halliburton Energy Servs., Inc. v. M–I LLC*, 514 F.3d 1244, 1255 (C.A.Fed.2008). See also *Hormone Research Foundation, Inc. v. Genentech, Inc.*, 904 F.2d 1558, 1563 (C.A.Fed.1990) (“It is a well-established axiom in patent law that a patentee is free to be his or her own lexicographer....”).

To determine the proper office of the definiteness command, therefore, we must reconcile concerns that tug in opposite directions. Cognizant of the competing concerns, we read § 112, ¶ 2 to require that a patent's claims, viewed in light of the specification and prosecution history, inform those skilled in the art about the scope of the invention with reasonable certainty. The definiteness requirement, so understood, mandates clarity, while recognizing that absolute precision is unattainable. The standard we adopt accords with opinions of this Court stating that “the certainty which the law requires in patents is not greater than is reasonable, having regard to their subject-matter.” *Minerals Separation, Ltd. v. Hyde*, 242 U.S. 261, 270 (1916). See also *United Carbon*, 317 U.S., at 236 (“claims must be reasonably clear-cut”); *Markman*, 517 U.S., at 389 (claim construction calls for “the necessarily sophisticated analysis of the whole document,” and may turn on evaluations of expert testimony).

B

In resolving *Nautilus*' definiteness challenge, the Federal Circuit asked whether the '753 patent's claims were “amenable to construction” or “insolubly ambiguous.” Those formulations can breed lower court confusion, for they lack the precision § 112, ¶ 2 demands. [From footnote: See, e.g., *Every Penny Counts, Inc. v. Wells Fargo Bank, N. A.*, — F.Supp.2d —, —, 2014 WL 869092, *4 (M.D.Fla., Mar. 5, 2014) (finding that “the account,” as used in claim, “lacks definiteness,” because it might mean several different things and “no informed and confident choice is available among the contending definitions,” but that “the extent of the indefiniteness ... falls far short of the ‘insoluble ambiguity’ required to invalidate the claim”).] It cannot be sufficient that a court can ascribe some meaning to a patent's claims; the definiteness inquiry trains on the understanding of a skilled artisan at the time of the patent application, not that of a court viewing matters post hoc. To tolerate imprecision just short of that rendering a claim

“insolubly ambiguous” would diminish the definiteness requirement’s public-notice function and foster the innovation-discouraging “zone of uncertainty,” *United Carbon*, 317 U.S., at 236, against which this Court has warned.

Appreciating that “terms like ‘insolubly ambiguous’ may not be felicitous,” Brief for Respondent 34, *Biosig* argues the phrase is a shorthand label for a more probing inquiry that the Federal Circuit applies in practice. The Federal Circuit’s fuller explications of the term “insolubly ambiguous,” we recognize, may come closer to tracking the statutory prescription. See, e.g., 715 F.3d, at 898 (case below) (“[I]f reasonable efforts at claim construction result in a definition that does not provide sufficient particularity and clarity to inform skilled artisans of the bounds of the claim, the claim is insolubly ambiguous and invalid for indefiniteness.” (internal quotation marks omitted)). But although this Court does not “micromanag[e] the Federal Circuit’s particular word choice” in applying patent-law doctrines, we must ensure that the Federal Circuit’s test is at least “probative of the essential inquiry.” *Warner–Jenkinson Co. v. Hilton Davis Chemical Co.*, 520 U.S. 17, 40 (1997). Falling short in that regard, the expressions “insolubly ambiguous” and “amenable to construction” permeate the Federal Circuit’s recent decisions concerning § 112, ¶ 2’s requirement. We agree with *Nautilus* and its amici that such terminology can leave courts and the patent bar at sea without a reliable compass.

The parties nonetheless dispute whether factual findings subsidiary to the ultimate issue of definiteness trigger the clear-and-convincing-evidence standard and, relatedly, whether deference is due to the PTO’s resolution of disputed issues of fact. We leave these questions for another day. The court below treated definiteness as “a legal issue [the] court reviews without deference,” 715 F.3d, at 897, and *Biosig* has not called our attention to any contested factual matter—or PTO determination thereof—pertinent to its infringement claims.

IV

Both here and in the courts below, the parties have advanced conflicting arguments as to the definiteness of the claims in the ’753 patent. *Nautilus* maintains that the claim term “spaced relationship” is open to multiple interpretations reflecting markedly different understandings of the patent’s scope, as exemplified by the disagreement among the members of the Federal Circuit panel. [From footnote: Notably, however, all three panel members found *Nautilus*’ arguments unavailing.] *Biosig* responds that “spaced relationship,” read in light of the specification and as illustrated in the accompanying drawings, delineates the permissible spacing with sufficient precision.

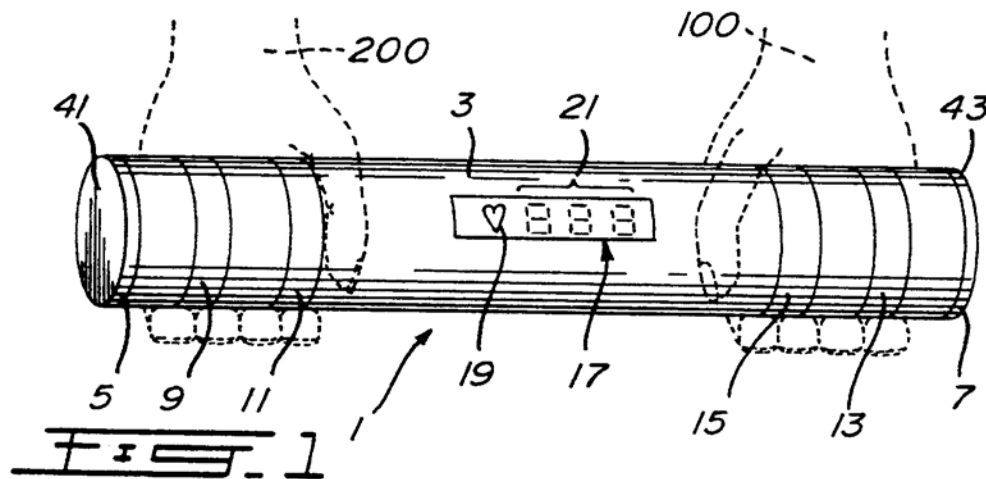
“[M]indful that we are a court of review, not of first view,” *Cutter v. Wilkinson*, 544 U.S. 709, 718, n. 7 (2005), we decline to apply the standard we have announced to the controversy between *Nautilus* and *Biosig*. As we have explained, the Federal Circuit invoked a standard more amorphous than the statutory definiteness requirement allows. We therefore follow our ordinary practice of remanding so that the Court of Appeals can reconsider, under the proper standard, whether the relevant claims in the ’753 patent are sufficiently definite.

* * *

For the reasons stated, we vacate the judgment of the United States Court of Appeals for the Federal Circuit and remand the case for further proceedings consistent with this opinion.

It is so ordered.

APPENDIX



NOTES AND COMMENTS ON NAUTILUS

1. Questions Left for Later. The Court states the new test for indefiniteness: a claim is indefinite if it “fail[s] to inform, with reasonable certainty, those skilled in the art about the scope of the invention.” It is left to the Federal Circuit to apply the new test to the patent at issue in this case. Does the claim term “spaced relationship” fail to inform about the scope of the invention? What about the evidence regarding what this term would mean to one skilled in the art, discussed especially by the Federal Circuit judges in their opinions below? How much should the stated purpose of the invention bear on the question of reasonable certainty regarding claim scope?

2. Same Result on Remand. *Nautilus* won at the Supreme Court, but it lost once again on remand at the Federal Circuit. See *Biosig Instruments, Inc. v. Nautilus, Inc.*, 783 F.3d 1374 (Fed. Cir. 2015). With perhaps more than a touch of sarcasm, the Federal Circuit stated that, after the Supreme Court’s teaching *Nautilus*, the court “may now steer by the bright star of ‘reasonable certainty,’ rather than the unreliable compass of ‘insoluble ambiguity.’” *Id.* at 1379. Applying reasoning very similar to its prior opinion, the court concluded that “term ‘spaced relationship’ does not run afoul of ‘the innovation-discouraging ‘zone of uncertainty’ against which [the Supreme Court] has warned,’ and to the contrary, informs a skilled artisan with reasonable certainty of the scope of the claim.” *Id.* at 1384 (quoting *Interval Licensing LLC v. AOL, Inc.*, 766 F.3d 1364, 1374 (Fed. Cir. 2014)). Does the result on remand suggest that *Nautilus*’s “reasonable certainty” standard will not make a big difference?

3. Failing the New Standard. A contrast to the result on remand in *Nautilus* is provided by *In Ex Parte Breed*, 2014 WL 2536964 (PTAB June 04, 2014), which held claims indefinite under the Supreme Court’s new “reasonable certainty” standard even though the claims might have been valid under the Federal Circuit’s now-discredited “insolubly ambiguous” standard. The claimed system included a series of roadside sensors that collect data about traffic and other conditions from at least one vehicle travelling on the roadway and send the resultant data to a remote facility for processing; the claims state that information so gathered “can be directed from

the remote facility to other vehicles on the roadway or roadways from which the information is obtained.” The examiner said that the phrase “can be” in this claim is ambiguous. It might mean that the information is in fact directed to other vehicles, because the system has this capability. Or it may mean that the information might *optionally* be so directed, but that this was not a necessary feature of the claimed invention. Under the “insolubly ambiguous” standard the examiner might have been required to choose one of the two meanings, thus resolving the ambiguity and rendering the claim definite. But under the *Nautilus* standard, the PTAB agreed with the examiner that the claim was invalid due to indefiniteness.

4. Approximations and the Person of Skill in the Art. In footnote 5 of the opinion (omitted in the excerpt above), the Court mentions some cases involving the common issue of claims that include terms of approximation:

See also *Eibel Process Co. v. Minnesota & Ontario Paper Co.*, 261 U.S. 45, 58, 65–66 (1923) (upholding as definite a patent for an improvement to a paper-making machine, which provided that a wire be placed at a “high” or “substantial elevation,” where “readers ... skilled in the art of paper making and versed in the use of the ... machine” would have “no difficulty ... in determining ... the substantial [elevation] needed” for the machine to operate as specified).

134 S.Ct. 2120, at 2129 n. 5. It is important to remember, as the Court emphasizes in *Nautilus*, that definiteness is to be viewed from the perspective of someone skilled in the art. Hence the “reasonable certainty” required by the opinion is the reasonable certainty of an expert in the field. This may render many terms of approximation quite definite, because knowledge of the field may often supply implicit parameters in areas where the layperson would be quite uncertain about claim scope.

5. Relationship to the Statutory Presumption of Validity. In footnote 10 (omitted), the Court says:

The Federal Circuit suggests that a permissive definiteness standard “‘accord[s] respect to the statutory presumption of patent validity.’ ” 715 F.3d 891, 902 (2013) (quoting *Exxon Research*, 265 F.3d, at 1375). See also § 282, ¶ 1 (“[a] patent shall be presumed valid,” and “[t]he burden of establishing invalidity of a patent or any claim thereof shall rest on the party asserting such invalidity”); *Microsoft Corp. v. i4i Ltd. Partnership*, 564 U.S. —, —, 131 S.Ct. 2238, 2242 (2011) (invalidity defenses must be proved by “clear and convincing evidence”). As the parties appear to agree, however, this presumption of validity does not alter the degree of clarity that § 112, ¶ 2 demands from patent applicants; to the contrary, it incorporates that definiteness requirement by reference. See § 282, ¶ 2(3) (defenses to infringement actions include “[i]nvalidity of the patent or any claim in suit for failure to comply with ... any requirement of [§ 112]”).

134 S.Ct. 2120, at 2130 n. 10. It is worth pondering how one attacking a patent for indefiniteness can go about establishing the invalidity case. How does one establish a lack of reasonable certainty regarding claim scope, in clear and convincing terms, so as to overcome the statutory presumption of validity?

Chapter 8: Infringement

Chap. 8.B.1: Add the following new note after note 1 to the Federal Circuit’s *Phillips v. AWH Corporation* decision:

Note 1A. *Williamson v. Citrix*: Which Elements Are Subject § 112(f)? If the Federal Circuit is correct that very different interpretive rules should apply to means-plus-function elements than to other elements in patent claims, then it is very important to know which elements in a claim should be viewed as a means-plus-function elements (which are limited to covering what is disclosed in the specification plus equivalents) and which are non-means-plus-function elements (which are free to cover things not equivalent to anything disclosed in the specification).

This issue is address in part I of the *Phillips* opinion, and the *en banc* court agrees with the earlier panel opinion that “term ‘baffles’ is not means-plus-function language.” The court gave two reasons for that result. First, the court reasoned that “the reference to ‘baffles’ does not use the word ‘means,’ and we have held that the absence of that term creates a rebuttable presumption that [§ 112(f)] does not apply.” Second, the court reasoned that “the term ‘baffles’ is nonetheless structural; it is not a purely functional placeholder in which structure is filled in by the specification.” Only after the court decides that “baffles” should not be interpreted as a “means-plus-function” element does the court go ahead to “determine the correct construction of the structural term ‘baffles,’ as used in the ’798 patent.”

Phillips was decided in an era when the Federal Circuit severely limited the set of elements viewed as means-plus-function. The year before *Phillips*, the court had held that, if the word “means” was not contained in an element, there was a presumption that § 112(f) was inapplicable, and that presumption “is a strong one that is not readily overcome.” *Lighting World, Inc. v. Birchwood Lighting, Inc.*, 382 F.3d 1354, 1358 (Fed. Cir.2004). That era ended in 2015 when the en banc court in *Williamson v. Citrix Online, LLC*, 792 F. 3d 1339 (Fed. Cir. 2015) (en banc), rejected prior precedents like *Lighting World* that imposed a “strong” presumption against application of § 112(f).

The *Williamson* court reasoned:

Our consideration of this case has led us to conclude that such a heightened burden is unjustified and that we should abandon characterizing as “strong” the presumption that a limitation lacking the word “means” is not subject to [§ 112(f)]. That characterization is unwarranted, is uncertain in meaning and application, and has the inappropriate practical effect of placing a thumb on what should otherwise be a balanced analytical scale. It has shifted the balance struck by Congress in passing [§ 112(f)] and has resulted in a proliferation of functional claiming untethered to [§ 112(f)] and free of the strictures set forth in the statute. Henceforth, we will apply the presumption as we have done prior to *Lighting World*, without requiring any heightened evidentiary showing and expressly overrule the characterization of that presumption as “strong.” We also overrule the strict requirement of “a showing that the limitation essentially is devoid of anything that can be construed as structure.”

The standard is whether the words of the claim are understood by persons of ordinary skill in the art to have a sufficiently definite meaning as the name for structure. When a claim term lacks the word “means,” the presumption can be overcome and [§ 112(f)] will apply if

the challenger demonstrates that the claim term fails to “recite sufficiently definite structure” or else recites “function without reciting sufficient structure for performing that function.” *Watts [v. XL Sys., Inc.]*, 232 F.3d 877, 880 (Fed.Cir.2000).] The converse presumption remains unaffected: “use of the word ‘means’ creates a presumption that § 112(f) applies.” *Personalized Media Communications, [LLC v. International Trade Commission]*, 161 F.3d 696, 703 (Fed.Cir.1998).]

Williamson, 792 F. 3d at 1349.

Under new *Williamson* test, would “baffles” still be considered *not* to be a mean-plus-function element? *Williamson* itself held that the word “module” in a computer patent “‘is simply a generic description for software or hardware that performs a specified function.’” *Id.* at 1350 (quoting the district court). In *Phillips*, the Federal Circuit ultimately determined that, consistent with dictionary definitions, “the term ‘baffles’ refers to objects that check, impede, or obstruct the flow of something.” *Phillips*, 415 F. 3d at 1324. That definition means that “baffles” is defined to encompass any “objects” that preform a specific function (“obstruct[ing] the flow of something”). *Williamson* would apply quite easily if the patent claim in *Phillips* read “objects to obstruct flow.” “Objects” would be easily to see as a “generic term,” and “to obstruct flow” is obviously a function. Should it matter that the English language has a more specific noun—“baffles”—to describe objects that perform that type of function? Should an inventor gain broader rights if her lawyer substitutes the word “baffles” in place of a phrase such as “flow obstructing objects” or “means for obstructing a flow of something”?

Finally, if we step back a bit from *Phillips*, *Williamson* and other recent Federal Circuit case law, does it make any sense to distinguish sharply between means-plus-function elements and other elements? If an element such as “baffles” has some functional aspects to it, shouldn’t that element also be limited to what’s disclosed in the specification and equivalents? Note that the line of precedents distinguishing between means-plus-function elements and other claim elements is extremely young. In reviewing Federal Circuit case law on the issue, *Williamson* cited opinions back to 1996 but nothing earlier, and those earlier cases do not cite prior cases. Prior precedents on the issue are absent because, even in the recent past, courts and lawyers did not think it necessary to treat non-means-plus-function elements so differently from means-plus-function elements.

Chap. 8.B.4: On page 789, replace the Federal Circuit’s *Akamai v. Limelight* decision with the Supreme Court’s decision reversing the Federal Circuit:

Limelight Networks, Inc. v. Akamai Technologies, Inc.
134 S.Ct. 2111 (2014)

Justice ALITO delivered the opinion of the Court.

This case presents the question whether a defendant may be liable for inducing infringement of a patent under 35 U.S.C. § 271(b) when no one has directly infringed the patent under § 271(a) or any other statutory provision. The statutory text and structure and our prior case law require that we answer this question in the negative. We accordingly reverse the Federal Circuit, which reached the opposite conclusion.

I

A

Respondent the Massachusetts Institute of Technology is the assignee of U.S. Patent No. 6,108,703 ('703 patent), which claims a method of delivering electronic data using a “content delivery network,” or “CDN.” Respondent Akamai Technologies, Inc., is the exclusive licensee. Akamai maintains many servers distributed in various locations. Proprietors of Web sites, known as “content providers,” contract with Akamai to deliver their Web sites' content to individual Internet users. The '703 patent provides for the designation of certain components of a content provider's Web site (often large files, such as video or music files) to be stored on Akamai's servers and accessed from those servers by Internet users. The process of designating components to be stored on Akamai's servers is known as “tagging.” By “aggregat[ing] the data demands of multiple content providers with differing peak usage patterns and serv[ing] that content from multiple servers in multiple locations,” 614 F.Supp.2d 90, 96 (D.Mass.2009), as well as by delivering content from servers located in the same geographic area as the users who are attempting to access it, Akamai is able to increase the speed with which Internet users access the content of its customers' Web sites.

Petitioner Limelight Networks, Inc., also operates a CDN and carries out several of the steps claimed in the '703 patent. But instead of tagging those components of its customers' Web sites that it intends to store on its servers (a step included in the '703 patent), Limelight requires its customers to do their own tagging. Respondents claim that Limelight “provides instructions and offers technical assistance” to its customers regarding how to tag, 629 F.3d 1311, 1321 (C.A.Fed.2010), but the record is undisputed that Limelight does not tag the components to be stored on its servers.

B

In 2006, respondents sued Limelight in the United States District Court for the District of Massachusetts, claiming patent infringement. The case was tried to a jury, which found that Limelight had committed infringement and awarded more than \$40 million in damages. [The district court then granted reconsideration and vacated the judgment in light of a recently-decided Federal Circuit case, *Muniauction, Inc. v. Thomson Corp.*, 532 F.3d 1318 (2008), which held that there can be no direct infringement when no single entity performs all the steps of a claimed process. A three-judge panel of the Federal Circuit affirmed.]

The Federal Circuit [then] granted en banc review and reversed. The en banc court found it unnecessary to revisit its § 271(a) direct infringement case law. Instead, it concluded that the “evidence could support a judgment in [respondents'] favor on a theory of induced infringement” under § 271(b). 692 F.3d 1301, 1319 (2012) (per curiam). This was true, the court explained, because § 271(b) liability arises when a defendant carries out some steps constituting a method patent and encourages others to carry out the remaining steps—even if no one would be liable as a direct infringer in such circumstances, because those who performed the remaining steps did not act as agents of, or under the direction or control of, the defendant. The Court of Appeals did not dispute that “there can be no indirect infringement without direct infringement,” *id.*, at 1308, but it explained that “[r]equiring proof that there has been direct infringement ... is not the same as requiring proof that a single party would be liable as a direct *2117 infringer,” *id.*, at 1308–1309 (emphasis deleted). Judge Newman and Judge Linn both dissented (with the latter joined by Judges Dyk, Prost, and O'Malley).

Limelight sought certiorari, which we granted.

II

A

Neither the Federal Circuit, see 692 F.3d, at 1308, nor respondents, dispute the proposition that liability for inducement must be predicated on direct infringement. This is for good reason, as our case law leaves no doubt that inducement liability may arise “if, but only if, [there is] ... direct infringement.” *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 365 U.S. 336, 341, 81 S.Ct. 599, 5 L.Ed.2d 592 (1961) (emphasis deleted). [From footnote: Aro addressed contributory infringement under § 271(c), rather than inducement of infringement under § 271(b), but we see no basis to distinguish for these purposes between the two, which after all spring from common stock. See *Global-Tech Appliances, Inc. v. SEB S.A.*, 131 S.Ct. 2060, 2067–2068 (2011).]

One might think that this simple truth is enough to dispose of this appeal. But the Federal Circuit reasoned that a defendant can be liable for inducing infringement under § 271(b) even if no one has committed direct infringement within the terms of § 271(a) (or any other provision of the patent laws), because direct infringement can exist independently of a violation of these statutory provisions. See 692 F.3d, at 1314.

The Federal Circuit's analysis fundamentally misunderstands what it means to infringe a method patent. A method patent claims a number of steps; under this Court's case law, the patent is not infringed unless all the steps are carried out. This principle follows ineluctably from what a patent is: the conferral of rights in a particular claimed set of elements. “Each element contained in a patent claim is deemed material to defining the scope of the patented invention,” *Warner-Jenkinson Co. v. Hilton Davis Chemical Co.*, 520 U.S. 17, 29 (1997), and a patentee's rights extend only to the claimed combination of elements, and no further.

The Federal Circuit held in *Muniauction* that a method's steps have not all been performed as claimed by the patent unless they are all attributable to the same defendant, either because the defendant actually performed those steps or because he directed or controlled others who performed them. See 532 F.3d, at 1329–1330. Assuming without deciding that the Federal Circuit's holding in *Muniauction* is correct, there has simply been no infringement of the method in which respondents have staked out an interest, because the performance of all the patent's steps is not attributable to any one person. And, as both the Federal Circuit and respondents admit, where there has been no direct infringement, there can be no inducement of infringement under § 271(b).

The Federal Circuit's contrary view would deprive § 271(b) of ascertainable standards. If a defendant can be held liable under § 271(b) for inducing conduct that does not constitute infringement, then how can a court assess when a patent holder's rights have been invaded? What if a defendant pays another to perform just one step of a 12-step process, and no one performs the other steps, but that one step can be viewed as the most important step in the process? In that case the defendant has not encouraged infringement, but no principled reason prevents him from being held liable for inducement under the Federal Circuit's reasoning, which permits inducement liability when fewer than all of a method's steps have been performed within the meaning of the patent. The decision below would require the courts to develop two parallel bodies of infringement law: one for liability for direct infringement, and one for liability for inducement.

Section 271(f)(1) reinforces our reading of § 271(b). That subsection imposes liability on a party who “supplies or causes to be supplied in or from the United States all or a substantial portion of the components of a patented invention ... in such manner as to actively induce the combination of such components outside of the United States in a manner that would infringe the patent *if such combination occurred within the United States*” (emphasis added). As this

provision illustrates, when Congress wishes to impose liability for inducing activity that does not itself constitute direct infringement, it knows precisely how to do so. The courts should not create liability for inducement of non-infringing conduct where Congress has elected not to extend that concept.

The Federal Circuit seems to have adopted the view that Limelight induced infringement on the theory that the steps that Limelight and its customers perform would infringe the '703 patent if all the steps were performed by the same person. But we have already rejected the notion that conduct which would be infringing in altered circumstances can form the basis for contributory infringement, and we see no reason to apply a different rule for inducement. In *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518 (1972), a manufacturer produced components of a patented machine and then exported those components overseas to be assembled by its foreign customers. [From footnote: Section 271(f) now prohibits the exporter's conduct at issue in *Deepsouth*.] (The assembly by the foreign customers did not violate U.S. patent laws.) In both *Deepsouth* and this case, the conduct that the defendant induced or contributed to would have been infringing if committed in altered circumstances: in *Deepsouth* if the machines had been assembled in the United States, see *id.*, at 526, and in this case if performance of all of the claimed steps had been attributable to the same person. In *Deepsouth*, we rejected the possibility of contributory infringement because the machines had not been assembled in the United States, and direct infringement had consequently never occurred. See *id.*, at 526–527. Similarly, in this case, performance of all the claimed steps cannot be attributed to a single person, so direct infringement never occurred. Limelight cannot be liable for inducing infringement that never came to pass.

B

Respondents' arguments in support of the Federal Circuit's reading of the statute are unpersuasive. First, respondents note that tort law imposes liability on a defendant who harms another through a third party, even if that third party would not himself be liable, and respondents contend that, given the background tort principles against which the Patent Act of 1952 was enacted, it should not matter that no one is liable for direct infringement in this case. But the reason Limelight could not have induced infringement under § 271(b) is not that no third party is liable for direct infringement; the problem, instead, is that no direct infringement was committed. *Muniauction* (which, again, we assume to be correct) instructs that a method patent is not directly infringed—and the patentee's interest is thus not violated—unless a single actor can be held responsible for the performance of all steps of the patent. Because Limelight did not undertake all steps of the '703 patent and cannot otherwise be held responsible for all those steps, respondents' rights have not been violated. Unsurprisingly, respondents point us to no tort case in which liability was imposed because a defendant caused an innocent third party to undertake action that did not violate the plaintiff's legal rights.

In a related argument, respondents contend that, at tort, liability sometimes attaches where two or more defendants inflict injury, even if each defendant's conduct, standing alone, would not be actionable. See W. Keeton, D. Dobbs, R. Keeton, & D. Owen, *Prosser and Keeton on Torts* § 52, p. 354 (5th ed. 1984) (multiple defendants who each add negligible impurities to stream liable if aggregate impurities cause harm). But the rationale for imposing liability in these circumstances is that the defendants collectively invaded the plaintiff's protected interests. See *ibid.* By contrast, under the *Muniauction* rule, respondents' interests in the '713 patent have not been invaded.

Second, respondents seek to analogize § 271(b) to the federal aiding and abetting statute, 18 U.S.C. § 2, and they argue that two parties who divide all the necessary elements of a crime between them are both guilty under § 2. The analogy does not hold up. The aiding and abetting

statute must be read “against its common-law background,” *Standefer v. United States*, 447 U.S. 10, 19 (1980), and at common law two or more defendants, each of whom committed an element of a crime, were liable as principals. See, e.g., 1 J. Bishop, *Commentaries on the Criminal Law* § 649, p. 392 (7th ed. 1882). While we have drawn on criminal law concepts in the past in interpreting § 271(b), see *Global-Tech Appliances, Inc. v. SEB S. A.*, 563 U.S. —, —, 131 S.Ct. 2060, 2068–2070 (2011), we think it unlikely that Congress had this particular doctrine in mind when it enacted the Patent Act of 1952, given the doctrine’s inconsistency with the Act’s cornerstone principle that patentees have a right only to the set of elements claimed in their patents and nothing further.

Third, respondents contend that patent law principles established before the enactment of the Patent Act demonstrate that a defendant that performs some steps of a patent with the purpose of having its customers perform the remaining steps is liable for inducing infringement. But here, too, the nature of the rights created by the Patent Act defeats the notion that Congress could have intended to permit inducement liability where there is no underlying direct infringement. According to respondents, their understanding of the pre-1952 doctrine casts doubt on the *Muniauction* rule for direct infringement under § 271(a), on the ground that that rule has the indirect effect of preventing inducement liability where Congress would have wanted it. But the possibility that the Federal Circuit erred by too narrowly circumscribing the scope of § 271(a) is no reason for this Court to err a second time by misconstruing § 271(b) to impose liability for inducing infringement where no infringement has occurred.

Finally, respondents, like the Federal Circuit, criticize our interpretation of § 271(b) as permitting 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. We acknowledge this concern. Any such anomaly, however, would result from the Federal Circuit’s interpretation of § 271(a) in *Muniauction*. A desire to avoid *Muniauction*’s natural consequences does not justify fundamentally altering the rules of inducement liability that the text and structure of the Patent Act clearly require—an alteration that would result in its own serious and problematic consequences, namely, creating for § 271(b) purposes some free-floating concept of “infringement” both untethered to the statutory text and difficult for the lower courts to apply consistently.

III

Respondents ask us to review the merits of the Federal Circuit’s *Muniauction* rule for direct infringement under § 271(a). We decline to do so today.

In the first place, the question presented is clearly focused on § 271(b), not § 271(a). The question presupposes that *Limelight* has not committed direct infringement under § 271(a). And since the question on which we granted certiorari did not involve § 271(a), petitioner did not address that important issue in its opening brief. Our decision on the § 271(b) question necessitates a remand to the Federal Circuit, and on remand, the Federal Circuit will have the opportunity to revisit the § 271(a) question if it so chooses.

IV

The judgment below is reversed, and the case is remanded for further proceedings consistent with this opinion.

It is so ordered.

NOTES AND COMMENTS ON *LIMELIGHT*

1. Closing Loopholes. As the Court noted, Congress has often responded when it perceives that court rulings create an unfair “loophole” in the law of patent infringement. Thus, § 271 was amended in the wake of the *Deepsouth* opinion, which had permitted competitors to ship overseas all the components of a patented invention and simply complete the final assembly outside the jurisdiction of US patent law. Do you sense the same degree of unfairness in the result in this case? Is it a mere “technicality” that the accused infringer requires the content owner – rather than the accused service provider – to “tag” the content for distribution? Do you believe the statutory fix is in order? Would you be in favor of such a change to § 271?

2. The *Muniauction* Problem. The Court noted at several points that the “problem” sought to be resolved by the Federal Circuit’s en banc opinion in *Akamai* was created by the Federal Circuit itself in its decision in *Muniauction*. The Supreme Court was referring here to *Muniauction*’s restrictive rule concerning direct infringement. The holding in *Muniauction* established that when multiple people, belonging to multiple distinct organizations, participate in collectively practicing the steps of a process patent, there is no infringement liability unless one organization exercises fairly direct supervisory or contractual control over the actions of the other organization. That rule is arguably an overly restrictive interpretation of the text of § 271(a). It is quite plausible under general common law principles to more broadly attribute the actions of one organization to the other.

The restrictive rule of *Muniauction* is, the Supreme Court stated, an “[a]nomaly.” The Court, through references like this, seemed to be inviting the Federal Circuit to revisit *Muniauction*.

3. The Federal Circuit Takes the Hint. On remand, the Federal Circuit at first adhered to its *Muniauction* rule for direct infringement and thus held that *Akamai* could not prevail because it had not proven “that Limelight’s customers were acting as agents of or otherwise contractually obligated to Limelight or that they were acting in a joint enterprise when performing [certain steps in the patented method].” *Akamai v. Limelight*, 786 F.3d 899 (Fed. Cir. May 13, 2015). Judge Moore wrote a strongly-worded dissent.

That panel opinion, however, did not endure. Only three months later, the Federal Circuit issued a unanimous *en banc* opinion that granted victory to *Akamai*. Still, the *en banc* opinion maintained much of the court’s old law. It maintained that a process patent can be infringed only “where all steps of a claimed method are performed by or attributable to a single entity.” *Akamai v. Limelight*, slip op. at 4 (Fed. Cir. August 13, 2015). And it maintained the position that “an entity will be responsible for others’ performance of method steps in two sets of circumstances: (1) where that entity directs or controls others’ performance, and (2) where the actors form a joint enterprise.” *Id.*

The court modified its prior case law by holding that a direction-and-control theory of liability could be found “when an alleged infringer conditions participation in an activity or receipt of a benefit upon performance of a step or steps of a patented method and established the manner and timing of that performance.” *Id.* at 5. That broadened view of direction-and-control was just enough to allow *Akamai* to prevail, because *Akamai* had presented evidence that Limelight “conditions customers’ use of its content delivery network upon its customers’ performance of [certain steps of the patented process].” *Id.* at 8.

Under the *en banc* opinion, so-called divided infringement claims will remain difficult to prove. A significant chance remains that this issue will return to the Supreme Court in the future (perhaps even in the *Akamai-Limelight* litigation).

Chap. 8.B.5. Procedural Aspects of Claim Interpretation

Teva Pharmaceuticals USA, Inc. v. Sandoz, Inc., 135 S. Ct. 831 (January 20, 2015)

Justice Breyer delivered the opinion of the Court.

In *Markman v. Westview Instruments, Inc.*, 517 U.S. 370 (1996), we explained that a patent claim is that “portion of the patent document that defines the scope of the patentee’s rights.” *Id.*, at 372. We held that “the construction of a patent, including terms of art within its claim,” is not for a jury but “exclusively” for “the court” to determine. *Ibid.* That is so even where the construction of a term of art has “evidentiary underpinnings.” *Id.*, at 390.

Today’s case involves claim construction with “evidentiary underpinnings.” See Part III, *infra*. And, it requires us to determine what standard the Court of Appeals should use when it reviews a trial judge’s resolution of an underlying factual dispute. Should the Court of Appeals review the district court’s factfinding *de novo* as it would review a question of law? Or, should it review that factfinding as it would review a trial judge’s factfinding in other cases, namely by taking them as correct “unless clearly erroneous?” See Fed. Rule Civ. Proc. 52(a)(6). We hold that the appellate court must apply a “clear error,” not a *de novo*, standard of review.

I

The basic dispute in this case concerns the meaning of the words “molecular weight” as those words appear in a patent claim. The petitioners, Teva Pharmaceuticals (along with related firms), own the relevant patent. The patent covers a manufacturing method for Copaxone, a drug used to treat multiple sclerosis. The drug’s active ingredient, called “copolymer-1,” is made up of molecules of varying sizes. And the relevant claim describes that ingredient as having “a molecular weight of 5 to 9 kilodaltons.”

[Sandoz, the accused infringer, argued that the patent claim was invalid because the “a molecular weight of 5 to 9 kilodaltons” failed the definiteness requirement of 35 U.S.C. § 112. Sandoz argued that] the term “molecular weight” might mean any one of three different things. The phrase might refer (1) to molecular weight as calculated by the weight of the molecule that is most prevalent in the mix that makes up copolymer-1. (The scientific term for molecular weight so calculated is, we are told, “peak average molecular weight.”) The phrase might refer (2) to molecular weight as calculated by taking all the different-sized molecules in the mix that makes up copolymer-1 and calculating the average weight, i.e., adding up the weight of each molecule and dividing by the number of molecules. (The scientific term for molecular weight so calculated is, we are told, “number average molecular weight.”) Or, the phrase might refer (3) to molecular weight as calculated by taking all the different-sized molecules in the mix that makes up copolymer-1 and calculating their average weight while giving heavier molecules a weight-related bonus when doing so. (The scientific term for molecular weight so calculated, we are told, is “weight average molecular weight.”) In Sandoz’s view, since Teva’s patent claim does not say which method of calculation should be used, the claim’s phrase “molecular weight” is indefinite [and thus the patent claim is invalid.]

The District Court, after taking evidence from experts, concluded that the patent claim was sufficiently definite. Among other things, it found that in context a skilled artisan would understand that the term “molecular weight” referred to molecular weight as calculated by the first method, i.e., “peak average molecular weight.” ... On appeal, the Federal Circuit held to the contrary. It found that the term “molecular weight” was indefinite. And it consequently held the patent invalid. 723 F. 3d, at 1369. In reaching this conclusion, the Federal Circuit reviewed *de novo* all aspects of the District Court’s claim construction, including the District Court’s

determination of subsidiary facts. [Teva sought and obtained certiorari to review the Federal Circuit's de novo standard of review.]

II

A

Federal Rule of Civil Procedure 52(a)(6) states that a court of appeals “must not . . . set aside” a district court’s “[f]indings of fact” unless they are “clearly erroneous.” In our view, this rule and the standard it sets forth must apply when a court of appeals reviews a district court’s resolution of subsidiary factual matters made in the course of its construction of a patent claim. We have made clear that the Rule sets forth a “clear command.” *Anderson v. Bessemer City*, 470 U.S. 564, 574 (1985). “It does not make exceptions or purport to exclude certain categories of factual findings from the obligation of a court of appeals to accept a district court’s findings unless clearly erroneous.” *Pullman-Standard v. Swint*, 456 U.S. 273, 287 (1982). Accordingly, the Rule applies to both subsidiary and ultimate facts. *Ibid.* And we have said that, when reviewing the findings of a “district court sitting without a jury, appellate courts must constantly have in mind that their function is not to decide factual issues de novo.” *Anderson*, *supra*, at 57 (quoting *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 123 (1969)).

Even if exceptions to the Rule were permissible, we cannot find any convincing ground for creating an exception to that Rule here. The Rules Advisory Committee pointed out that, in general, exceptions “would tend to undermine the legitimacy of the district courts . . . , multiply appeals . . . , and needlessly reallocate judicial authority.” Advisory Committee’s 1985 Note on subd. (a) of Fed. Rule Civ. Proc. 52, 28 U.S.C. App., pp. 908-909 see also *Anderson*, *supra*, at 574-575 (de novo review of factual findings “would very likely contribute only negligibly” to accuracy “at a huge cost in diversion of judicial resources”).

Our opinion in *Markman* neither created, nor argued for, an exception to Rule 52(a). The question presented in that case was a Seventh Amendment question: Should a jury or a judge construe patent claims? 517 U.S., at 372. We pointed out that history provides no clear answer. *Id.*, at 388. The task primarily involves the construction of written instruments. *Id.*, at 386, 388, 389. And that task is better matched to a judge’s skills. *Id.*, at 388 (“The construction of written instruments is one of those things that judges often do and are likely to do better than jurors unburdened by training in exegesis”). We consequently held that claim construction falls “exclusively within the province of the court,” not that of the jury. *Id.*, at 372.

When describing claim construction we concluded that it was proper to treat the ultimate question of the proper construction of the patent as a question of law in the way that we treat document construction as a question of law. *Id.*, at 388-391. But this does not imply an exception to Rule 52(a) for underlying factual disputes. We used the term “question of law” while pointing out that a judge, in construing a patent claim, is engaged in much the same task as the judge would be in construing other written instruments, such as deeds, contracts, or tariffs. *Id.*, at 384, 386, 388, 389; see also *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 510 (1917) (patent claims are “aptly likened to the description in a deed, which sets the bounds to the grant which it contains”); *Goodyear Dental Vulcanite Co. v. Davis*, 102 U.S. 222, 227 (1880) (analogizing patent construction to the construction of other written instruments like contracts). Construction of written instruments often presents a “question solely of law,” at least when the words in those instruments are “used in their ordinary meaning.” *Great Northern R. Co. v. Merchants Elevator Co.*, 259 U.S. 285, 291. But sometimes, say when a written instrument uses “technical words or phrases not commonly understood,” *id.*, at 292, those words may give rise to a factual dispute. If so, extrinsic evidence may help to “establish a usage of trade or locality.” *Ibid.* And in that circumstance, the “determination of the matter of fact” will “preced[e]” the “function of construction.” *Ibid.*; see also 12 R. Lord, Williston on Contracts §§34:1, p. 2, 34:19,

p. 174 (4th ed. 2012) (In contract interpretation, the existence of a “usage”—a “practice or method” in the relevant industry—“is a question of fact” (internal quotation marks omitted)). This factual determination, like all other factual determinations, must be reviewed for clear error. See *Pullman-Standard*, supra at 287 (The Rule does not “exclude certain categories of factual findings” and applies to both “subsidiary” and “ultimate” facts (internal quotation marks omitted)).

Accordingly, when we held in *Markman* that the ultimate question of claim construction is for the judge and not the jury, we did not create an exception from the ordinary rule governing appellate review of factual matters. *Markman* no more creates an exception to Rule 52(a) than would a holding that judges, not juries, determine equitable claims, such as requests for injunctions. A conclusion that an issue is for the judge does not indicate that Rule 52(a) is inapplicable. See Fed. Rule Civ. Proc. 52 (setting the standard of review for “[Factual] Findings and Conclusions by the Court” (emphasis added)).

While we held in that the ultimate issue of the proper construction of a claim should be treated as a question of law, we also recognized that in patent construction, subsidiary factfinding is sometimes necessary. Indeed, we referred to claim construction as a practice with “evidentiary underpinnings,” a practice that “falls somewhere between a pristine legal standard and a simple historical fact.” 517 U.S., at 378, 388. We added that sometimes courts may have to make “credibility judgments” about witnesses. *Id.*, at 389. In other words, we recognized that courts may have to resolve subsidiary factual disputes. And, as explained above, the Rule requires appellate courts to review all such subsidiary factual findings under the “clearly erroneous” standard.

Precedent further supports application of the “clearly erroneous” standard. Before the creation of the Federal Circuit, the Second Circuit explained that in claim construction, the subsidiary “question . . . of how the art understood the term . . . was plainly a question of fact; and unless the [district court’s] finding was ‘clearly erroneous,’ we are to take” it “as controlling.” *Harries v. Air King Products, Co.*, 183 F. 2d 158, 164 (CA2 1950) (L. Hand, C. J.). We have said the same as to subsidiary factual findings concerning other patent law inquiries, including “obviousness.” *Dennison Mfg. Co. v. Panduit Corp.*, 475 U.S. 809, 811, 106 S. Ct. 1578, 89 L. Ed. 2d 817 (1986) (per curiam) (“subsidiary determinations of the District Court” subject to Rule 52(a)’s clear error standard).

Finally, practical considerations favor clear error review. We have previously pointed out that clear error review is “particularly” important where patent law is at issue because patent law is “a field where so much depends upon familiarity with specific scientific problems and principles not usually contained in the general storehouse of knowledge and experience.” *Graver Tank & Mfg. Co. v. Linde Air Products Co.*, 339 U.S. 605, 610 (1950). A district court judge who has presided over, and listened to, the entirety of a proceeding has a comparatively greater opportunity to gain that familiarity than an appeals court judge who must read a written transcript or perhaps just those portions to which the parties have referred.

B

The Federal Circuit feared that “clear error” review would bring about less uniformity. Neither the Circuit nor Sandoz, however, has shown that (or explained why) divergent claim construction stemming from divergent findings of fact (on subsidiary matters) should occur more than occasionally. After all, the Federal Circuit will continue to review de novo the district court’s ultimate interpretation of the patent claims. And the attorneys will no doubt bring cases construing the same claim to the attention of the trial judge; those prior cases will sometimes be binding because of issue preclusion, see *Markman*, 517 U.S., at 391, and sometimes will serve as persuasive authority. Moreover, it is always possible to consolidate for discovery different cases

that involve construction of the same claims. And, as we said in *Markman*, subsidiary factfinding is unlikely to loom large in the universe of litigated claim construction. *Id.*, at 389-390. ...

D

Now that we have set forth why the Federal Circuit must apply clear error review when reviewing subsidiary factfinding in patent claim construction, it is necessary to explain how the rule must be applied in that context. We recognize that a district court's construction of a patent claim, like a district court's interpretation of a written instrument, often requires the judge only to examine and to construe the document's words without requiring the judge to resolve any underlying factual disputes. As all parties agree, when the district court reviews only evidence intrinsic to the patent (the patent claims and specifications, along with the patent's prosecution history), the judge's determination will amount solely to a determination of law, and the Court of Appeals will review that construction *de novo*. See Brief for Petitioners 27, Reply Brief 16; Brief for Respondents 43; see also Brief for United States as Amicus Curiae 12-13.

In some cases, however, the district court will need to look beyond the patent's intrinsic evidence and to consult extrinsic evidence in order to understand, for example, the background science or the meaning of a term in the relevant art during the relevant time period. See, e.g., *Seymour v. Osborne*, 78 U.S. 516 (1871) (a patent may be "so interspersed with technical terms and terms of art that the testimony of scientific witnesses is indispensable to a correct understanding of its meaning"). In cases where those subsidiary facts are in dispute, courts will need to make subsidiary factual findings about that extrinsic evidence. These are the "evidentiary underpinnings" of claim construction that we discussed in *Markman*, and this subsidiary factfinding must be reviewed for clear error on appeal.

For example, if a district court resolves a dispute between experts and makes a factual finding that, in general, a certain term of art had a particular meaning to a person of ordinary skill in the art at the time of the invention, the district court must then conduct a legal analysis: whether a skilled artisan would ascribe that same meaning to that term in the context of the specific patent claim under review. That is because "[e]xperts may be examined to explain terms of art, and the state of the art, at any given time," but they cannot be used to prove "the proper or legal construction of any instrument of writing." *Winans v. New York & Erie R. Co.*, 62 U.S. 88 (1859); see also *Markman*, *supra*, at 388 ("Where technical terms are used, or where the qualities of substances . . . or any similar data necessary to the comprehension of the language of the patent are unknown to the judge, the testimony of witnesses may be received upon these subjects, and any other means of information be employed. But in the actual interpretation of the patent the court proceeds upon its own responsibility, as an arbiter of the law, giving to the patent its true and final character and force'" (quoting 2 W. Robinson, *Law of Patents* §732, pp. 482-483 (1890); emphasis in original)).

Accordingly, the question we have answered here concerns review of the district court's resolution of a subsidiary factual dispute that helps that court determine the proper interpretation of the written patent claim. The district judge, after deciding the factual dispute, will then interpret the patent claim in light of the facts as he has found them. This ultimate interpretation is a legal conclusion. The appellate court can still review the district court's ultimate construction of the claim *de novo*. But, to overturn the judge's resolution of an underlying factual dispute, the Court of Appeals must find that the judge, in respect to those factual findings, has made a clear error. Fed. Rule Civ. Proc. 52(a)(6).

In some instances, a factual finding will play only a small role in a judge's ultimate legal conclusion about the meaning of the patent term. But in some instances, a factual finding may be close to dispositive of the ultimate legal question of the proper meaning of the term in the context of the patent. Nonetheless, the ultimate question of construction will remain a legal question.

Simply because a factual finding may be nearly dispositive does not render the subsidiary question a legal one. “[A]n issue does not lose its factual character merely because its resolution is dispositive of the ultimate” legal question. *Miller v. Fenton*, 474 U.S. 104, 113 (1985). It is analogous to a judge (sitting without a jury) deciding whether a defendant gave a confession voluntarily. The answer to the legal question about the voluntariness of the confession may turn upon the answer to a subsidiary factual question, say “whether in fact the police engaged in the intimidation tactics alleged by the defendant.” *Id.*, at 112. An appellate court will review the trial judge’s factual determination about the alleged intimidation deferentially (though, after reviewing the factual findings, it will review a judge’s ultimate determination of voluntariness *de novo*). See *id.*, at 112-118. An appellate court similarly should review for clear error those factual findings that underlie a district court’s claim construction.

III

We can illustrate our holding by considering an instance in which Teva, with the support of the Solicitor General, argues that the Federal Circuit wrongly reviewed the District Court’s factual finding *de novo*. Recall that Teva’s patent claim specifies an active ingredient with a “molecular weight of about 5 to 9 kilodaltons.” Recall Sandoz’s basic argument, namely that the term “molecular weight” is indefinite or ambiguous. The term might refer to [i] the weight of the most numerous molecule, it might refer to [ii] weight as calculated by the average weight of all molecules, or it might refer to [iii] weight as calculated by an average in which heavier molecules count for more. The claim, Sandoz argues, does not tell us which way we should calculate weight. See Part I, *supra*.

Teva argued in the District Court that the term “molecular weight” in the patent meant molecular weight calculated in the first way (the weight of the most prevalent molecule, or peak average molecular weight). Sandoz, however, argued that figure 1 of the patent showed that Teva could not be right. [Figure 1 is set forth below.] That figure, said Sandoz, helped to show that the patent term did not refer to the first method of calculation. Figure 1 shows how the weights of a sample’s molecules were distributed in three different samples. The curves indicate the number of molecules of each weight that were present in each of the three. For example, the figure’s legend says that the first sample’s “molecular weight” is 7.7. According to Teva, that should mean that molecules weighing 7.7 kilodaltons were the most prevalent molecules in the sample. But, look at the curve, said Sandoz. It shows that the most prevalent molecule weighed, not 7.7 kilodaltons, but slightly less than 7.7 (about 6.8) kilodaltons. After all, the peak of the first molecular weight distribution curve (the solid curve in the figure) is not at precisely 7.7 kilodaltons, but at a point just before 7.7. Thus, argued Sandoz, the figure shows that the patent claim term “molecular weight” did not mean molecular weight calculated by the first method. It must mean something else. It is indefinite.

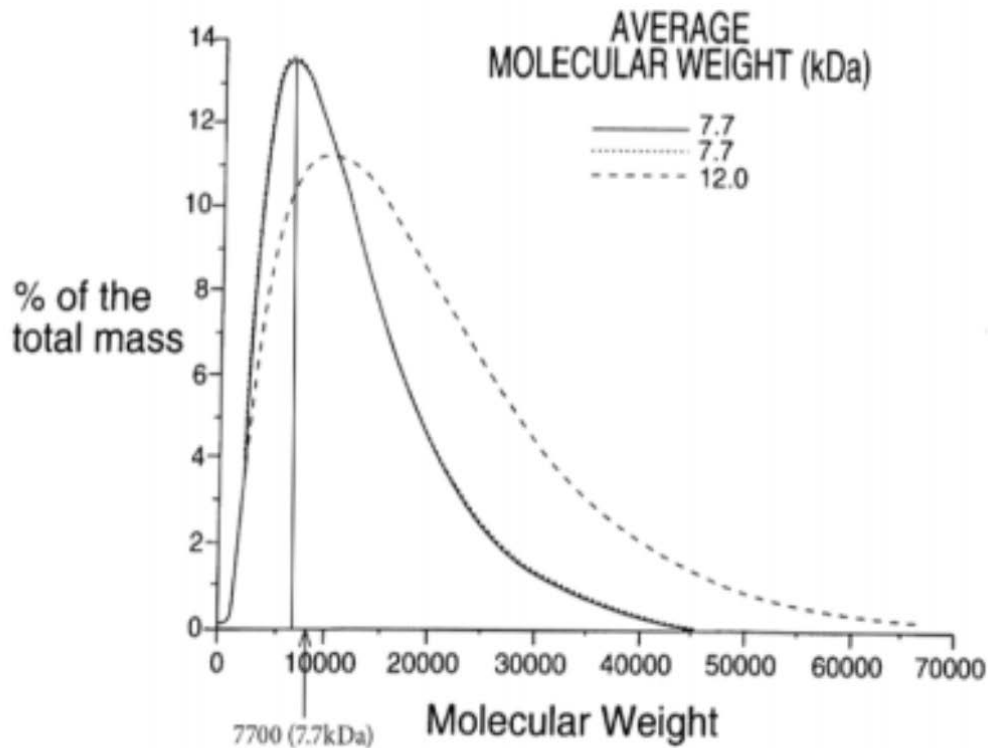


FIG. 1 (with minor additions to emphasize that the peak of the solid curve does not correspond precisely to 7.7kDa)

The District Court did not accept Sandoz's argument. Teva's expert testified that a skilled artisan would understand that converting data from a chromatogram to molecular weight distribution curves like those in figure 1 would cause the peak on each curve to shift slightly; this could explain the difference between the value indicated by the peak of the curve (about 6.8) and the value in the figure's legend (7.7). Sandoz's expert testified that no such shift would occur. The District Court credited Teva's expert's account, thereby rejecting Sandoz's expert's explanation. The District Court's finding about this matter was a factual finding—about how a skilled artisan would understand the way in which a curve created from chromatogram data reflects molecular weights. Based on that factual finding, the District Court reached the legal conclusion that figure 1 did not undermine Teva's argument that molecular weight referred to the first method of calculation (peak average molecular weight).

When the Federal Circuit reviewed the District Court's decision, it recognized that the peak of the curve did not match the 7.7 kilodaltons listed in the legend of figure 1. But the Federal Circuit did not accept Teva's expert's explanation as to how a skilled artisan would expect the peaks of the curves to shift. And it failed to accept that explanation without finding that the District Court's contrary determination was "clearly erroneous." The Federal Circuit should have accepted the District Court's finding unless it was "clearly erroneous." Our holding today makes clear that, in failing to do so, the Federal Circuit was wrong.

Teva claims that there are two additional instances in which the Federal Circuit rejected the District Court's factual findings without concluding that they were clearly erroneous. We leave these matters for the Federal Circuit to consider on remand in light of today's opinion.

We vacate the Federal Circuit's judgment, and we remand the case for further proceedings consistent with this opinion.

It is so ordered.

[A dissent by Justice Thomas, joined by Justice Alito, is omitted.]

NOTES AND QUESTIONS ON *TEVA*

1. Seemingly Small But Important Issue. *Teva* resolves a seemingly small but actually quite important procedural issue that Federal Circuit judges had debated in various opinions for more than a decade. The resolution of the issue is somewhat of a split decision. Trial court decisions on claim construction will be entitled to deference to the extent that the trial judge (i) relied on “extrinsic evidence” and (ii) made explicit findings of fact based on that extrinsic evidence. In other circumstances, trial courts will still have their claim constructions review *de novo* even if, as is often the case, the trial judge bases a claim construction on a careful reading of the specification, the prosecution file history and lengthy briefs containing much argumentation.

Does this split in the standard of review create incentives for parties to introduce extrinsic evidence and for judges to rely on such evidence in interpreting the claims?

2. Deference to PTO Interpretations. Though this case involved the standard by which the Federal Circuit reviews district court claim interpretations, it has implications for how the appellate court will review PTO claim interpretations. Certainly, the Federal Circuit's prior rule—under which all administrative claim interpretations were reviewed *de novo*—must be wrong at least in those circumstances where a party before the agency introduces extrinsic evidence and the agency relies on that evidence. In other words, *SDRAM Corp. v. AD-II Eng'g, Inc.*, 465 F.3d 1351 (Fed. Cir. 2006) (discussed in the casebook in note 5 on pp. 863-64) must now be viewed as bad law. The interesting question is whether the agency should get deference in other circumstances too. For example, if the agency merely asserts, based on its expertise but without record evidence, that a particular term would have a certain meaning to a person of ordinary skill in the art, would the Federal Circuit be required to afford some deference to that interpretation. See casebook note 5, p. 864, for cases suggesting that deference would be due.

3. Hinting at a New Procedure for Determining Claim Validity? Prior to *Teva*, the Federal Circuit's case law seemed to require a quite different procedure for determining the meaning, versus the validity, of patent claims. Claim meaning could be determined by a district judge in a pre-trial hearing. Claim validity had to await trial because the underlying facts associated with validity were supposed to be decided by a jury. That difference could be justified, prior to *Teva*, by the view that claim interpretation was almost exclusive legal whereas claim validity, while ultimately an issue of law, depended much more heavily on fact finding. After *Teva*, however, that distinction no longer holds water. Indeed, the *Teva* Court explicitly drew an analogy between (i) review of the factual issues underlying claim construction and (ii) review of the factual issues underlying obviousness.

The apparent question now is whether the same process for claim interpretation—a pretrial hearing with district judges ruling on the ultimate legal issue based on their own subsidiary fact findings—can now be used for patent validity issues. The procedural posture of *Teva* strongly suggests an affirmative answer to that question, and in fact, the ultimate legal issue being decided in *Teva* itself was a patent validity issue—claim definiteness.

Chap. 8.G. Indirect Infringement.

Commil USA, LLC v. Cisco Systems

135 S. Ct. 1920 (2015)

JUSTICE KENNEDY delivered the opinion of the Court.*

A patent holder, and the holder's lawful licensees, can recover for monetary injury when their exclusive rights are violated by others' wrongful conduct. One form of patent injury occurs if unauthorized persons or entities copy, use, or otherwise infringe upon the patented invention. Another form of injury to the patent holder or his licensees can occur when the actor induces others to infringe the patent. In the instant case, both forms of injury—direct infringement and wrongful inducement of others to commit infringement—were alleged. After two trials, the defendant was found liable for both types of injury. The dispute now before the Court concerns the inducement aspect of the case.

I

The patent holder who commenced this action is the petitioner here, Commil USA, LLC. The technical details of Commil's patent are not at issue. So it suffices to say, with much oversimplification, that the patent is for a method of implementing short-range wireless networks. Suppose an extensive business headquarters or a resort or a college campus wants a single, central wireless system (sometimes called a Wi-Fi network). In order to cover the large space, the system needs multiple base stations so a user can move around the area and still stay connected. Commil's patent relates to a method of providing faster and more reliable communications between devices and base stations. The particular claims of Commil's patent are discussed in the opinion of the United States Court of Appeals for the Federal Circuit. 720 F. 3d 1361, 1364-1365, 1372 (2013).

Commil brought this action against Cisco Systems, Inc., which makes and sells wireless networking equipment. In 2007, Commil sued Cisco in the United States District Court for the Eastern District of Texas. Cisco is the respondent here. Commil alleged that Cisco had infringed Commil's patent by making and using networking equipment. In addition Commil alleged that Cisco had induced others to infringe the patent by selling the infringing equipment for them to use, in contravention of Commil's exclusive patent rights.

At the first trial, the jury concluded that Commil's patent was valid and that Cisco had directly infringed. The jury awarded Commil \$3.7 million in damages. As to induced infringement, the jury found Cisco not liable. Commil filed a motion for a new trial on induced infringement and damages, which the District Court granted because of certain inappropriate comments Cisco's counsel had made during the first trial. [*]

A month before the second trial Cisco went to the United States Patent and Trademark Office and asked it to reexamine the validity of Commil's patent. The Office granted the request; but, undoubtedly to Cisco's disappointment, it confirmed the validity of Commil's patent.

* JUSTICE THOMAS joins Parts II-B and III of this opinion.

* [Eds. note: Commil is an Israeli company and the inventors in the case were Jewish. In affirming the district court's new trial order, the Federal Circuit found that Cisco's lawyers had "attempted to instill in the jury, through irrelevant references to ethnicity and religion, an 'us versus them' mentality," and that Cisco's lawyers "persisted in its course of conduct even after the court warned counsel" to avoid religious references. 720 F.3d at 1369-70. The Federal Circuit's account of the prejudicial comments by Cisco's lawyers provides a cautionary lesson about inappropriate behavior during trial.]

Back in the District Court, the second trial proceeded, limited to the issues of inducement and damages on that issue and direct infringement. As a defense to the claim of inducement, Cisco argued it had a good-faith belief that Commil's patent was invalid. It sought to introduce evidence to support that assertion. The District Court, however, ruled that Cisco's proffered evidence of its good-faith belief in the patent's invalidity was inadmissible. While the District Court's order does not provide the reason for the ruling, it seems the court excluded this evidence on the assumption that belief in invalidity is not a defense to a plaintiff's claim that the defendant induced others to infringe.

At the close of trial, and over Cisco's objection, the District Court instructed the jury that it could find inducement if "Cisco actually intended to cause the acts that constitute . . . direct infringement and that Cisco knew or should have known that its actions would induce actual infringement." The jury returned a verdict for Commil on induced infringement and awarded \$63.7 million in damages.

After the verdict, but before judgment, this Court issued its decision in *Global-Tech Appliances, Inc. v. SEB S. A.*, 563 U.S. ___, 131 S. Ct. 2060 (2011). That case, as will be discussed in more detail, held that, in an action for induced infringement, it is necessary for the plaintiff to show that the alleged inducer knew of the patent in question and knew the induced acts were infringing. Relying on that case, Cisco again urged that the jury instruction was incorrect because it did not state knowledge as the governing standard for inducement liability. The District Court denied Cisco's motion and entered judgment in Commil's favor.

Cisco appealed to the United States Court of Appeals for the Federal Circuit. The Court of Appeals affirmed in part, vacated in part, and remanded for further proceedings. The court concluded it was error for the District Court to have instructed the jury that Cisco could be liable for induced infringement if it "'knew or should have known'" that its customers infringed. 720 F. 3d, at 1366. The panel held that "induced infringement 'requires knowledge that the induced acts constitute patent infringement.'" *Ibid.* (quoting *Global-Tech*, *supra*, at ___, 131 S. Ct. 2060, 2068). By stating that Cisco could be found liable if it "'knew or should have known that its actions would induce actual infringement,'" the Court of Appeals explained, the District Court had allowed "the jury to find [Cisco] liable based on mere negligence where knowledge is required." 720 F. 3d, at 1366. That ruling, which requires a new trial on the inducement claim with a corrected instruction on knowledge, is not in question here.

What is at issue is the second holding of the Court of Appeals, addressing Cisco's contention that the trial court committed further error in excluding Cisco's evidence that it had a good-faith belief that Commil's patent was invalid. Beginning with the observation that it is "axiomatic that one cannot infringe an invalid patent," the Court of Appeals reasoned that "evidence of an accused inducer's good-faith belief of invalidity may negate the requisite intent for induced infringement." The court saw "no principled distinction between a good-faith belief of invalidity and a good-faith belief of non-infringement for the purpose of whether a defendant possessed the specific intent to induce infringement of a patent."

Judge Newman dissented on that point. In Judge Newman's view a defendant's good-faith belief in a patent's invalidity is not a defense to induced infringement. She reasoned that "whether there is infringement in fact does not depend on the belief of the accused infringer that it might succeed in invalidating the patent." Both parties filed petitions for rehearing en banc, which were denied. 737 F. 3d 699, 700 (2013). Five judges, however, would have granted rehearing en banc to consider the question whether a good-faith belief in invalidity is a defense to induced infringement. *Id.*, at 700 (Reyna, J., dissenting from denial of rehearing en banc).

This Court granted certiorari to decide that question.

II

Although the precise issue to be addressed concerns a claim of improper inducement to infringe, the discussion to follow refers as well to direct infringement and contributory infringement, so it is instructive at the outset to set forth the statutory provisions pertaining to these three forms of liability. These three relevant provisions are found in §271 of the Patent Act. 35 U.S.C. §271.

Subsection (a) governs direct infringement and provides:

“Except as otherwise provided in this title, whoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefor, infringes the patent.”

Under this form of liability, a defendant’s mental state is irrelevant. Direct infringement is a strict-liability offense. *Global-Tech*, 563 U.S., at ____.

Subsection (b) governs induced infringement:

“Whoever actively induces infringement of a patent shall be liable as an infringer.”

In contrast to direct infringement, liability for inducing infringement attaches only if the defendant knew of the patent and that “the induced acts constitute patent infringement.” *Id.*, at _____. In *Commil* and the Government’s view, not only is knowledge or belief in the patent’s validity irrelevant, they further argue the party charged with inducing infringement need not know that the acts it induced would infringe. On this latter point, they are incorrect, as will be explained below.

Subsection (c) deals with contributory infringement:

“Whoever offers to sell or sells within the United States or imports into the United States a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.”

Like induced infringement, contributory infringement requires knowledge of the patent in suit and knowledge of patent infringement. *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 488 (1964) (*Aro II*).

This case asks a question of first impression: whether knowledge of, or belief in, a patent’s validity is required for induced infringement under §271(b).

A

Before turning to the question presented, it is necessary to reaffirm what the Court held in *Global-Tech*. *Commil* and the Government (which supports *Commil* in this case) argue that *Global-Tech* should be read as holding that only knowledge of the patent is required for induced infringement. That, as will be explained, would contravene *Global-Tech*’s explicit holding that liability for induced infringement can only attach if the defendant knew of the patent and knew as well that “the induced acts constitute patent infringement.” 563 U.S., at ____.

In *Global-Tech*, the plaintiff, SEB, had invented and patented a deep fryer. A few years later, Sunbeam asked Pentalpha to supply deep fryers for Sunbeam to sell. To make the deep fryer, Pentalpha bought an SEB fryer and copied all but the cosmetic features. Pentalpha then sold the fryers to Sunbeam, which in turn sold them to customers. SEB sued Pentalpha for induced infringement, arguing Pentalpha had induced Sunbeam and others to sell the infringing

fryers in violation of SEB's patent rights. In defense, Pentalpha argued it did not know the deep fryer it copied was patented and therefore could not be liable for inducing anyone to infringe SEB's patent. The question presented to this Court was "whether a party who 'actively induces infringement of a patent' under 35 U.S.C. §271(b) must know that the induced acts constitute patent infringement." *Id.*, at ____.

After noting the language of §271(b) and the case law prior to passage of the Patent Act did not resolve the question, the *Global-Tech* Court turned to *Aro II*, a case about contributory infringement. The *Global-Tech* Court deemed that rules concerning contributory infringement were relevant to induced infringement, because the mental state imposed in each instance is similar. Before the Patent Act, inducing infringement was not a separate theory of indirect liability but was evidence of contributory infringement. 563 U.S., at _____. Thus, in many respects, it is proper to find common ground in the two theories of liability.

Aro II concluded that to be liable for contributory infringement, a defendant must know the acts were infringing. 377 U.S., at 488. In *Global-Tech*, the Court said this reasoning was applicable, explaining as follows:

"Based on this premise, it follows that the same knowledge is needed for induced infringement under §271(b). As noted, the two provisions have a common origin in the pre-1952 understanding of contributory infringement, and the language of the two provisions creates the same difficult interpretive choice. It would thus be strange to hold that knowledge of the relevant patent is needed under §271(c) but not under §271(b).

"Accordingly, we now hold that induced infringement under §271(b) requires knowledge that the induced acts constitute patent infringement." 563 U.S., at ____.

In support of Commil, the Government argues against the clear language of *Global-Tech*. According to the Government, all *Global-Tech* requires is knowledge of the patent: "The Court did not definitively resolve whether Section 271(b) additionally requires knowledge of the infringing nature of the induced acts." Brief for United States as Amicus Curiae 9. Together, Commil and the Government claim the "factual circumstances" of *Global-Tech* "did not require" the Court to decide whether knowledge of infringement is required for inducement liability. Brief for United States as Amicus Curiae 12. See also Brief for Petitioner 23-24. But in the Court's *Global-Tech* decision, its description of the factual circumstances suggests otherwise. The Court concluded there was enough evidence to support a finding that Pentalpha knew "the infringing nature of the sales it encouraged Sunbeam to make." 563 U.S., at ____, 131 S. Ct. 2060, 2071. It was not only knowledge of the existence of SEB's patent that led the Court to affirm the liability finding but also it was the fact that Pentalpha copied "all but the cosmetic features of SEB's fryer," demonstrating Pentalpha knew it would be causing customers to infringe SEB's patent. *Id.*, at ____, 131 S. Ct. 2060.

Accepting the Government and Commil's argument would require this Court to depart from its prior holding. See *id.*, at _____. See also *id.*, at _____ (KENNEDY, J., dissenting) ("The Court is correct, in my view, to conclude that . . . to induce infringement a defendant must know the acts constitute patent infringement" (internal quotation marks omitted)). And the *Global-Tech* rationale is sound. Qualifying or limiting its holding, as the Government and Commil seek to do, would lead to the conclusion, both in inducement and contributory infringement cases, that a person, or entity, could be liable even though he did not know the acts were infringing. In other words, even if the defendant reads the patent's claims differently from the plaintiff, and that reading is reasonable, he would still be liable because he knew the acts might infringe. *Global-Tech* requires more. It requires proof the defendant knew the acts were infringing. And the Court's opinion was clear in rejecting any lesser mental state as the standard. *Id.*, at ____.

B

The question the Court confronts today concerns whether a defendant's belief regarding patent validity is a defense to a claim of induced infringement. It is not. The scienter element for induced infringement concerns infringement; that is a different issue than validity. Section 271(b) requires that the defendant "actively induce[d] infringement." That language requires intent to "bring about the desired result," which is infringement. *Id.*, at _____. And because infringement and validity are separate issues under the Act, belief regarding validity cannot negate the scienter required under §271(b).

When infringement is the issue, the validity of the patent is not the question to be confronted. In *Cardinal Chemical Co. v. Morton Int'l, Inc.*, 508 U.S. 83 (1993), the Court explained, "A party seeking a declaratory judgment of invalidity presents a claim independent of the patentee's charge of infringement." *Id.*, at 96. It further held noninfringement and invalidity were "alternative grounds" for dismissing the suit. *Id.*, at 98. ... These explanations are in accord with the long-accepted truth—perhaps the axiom—that infringement and invalidity are separate matters under patent law. See *Pandrol USA, LP v. Airboss R. Prods., Inc.*, 320 F. 3d 1354, 1365 (CA Fed. 2003).

Indeed, the issues of infringement and validity appear in separate parts of the Patent Act. Part III of the Act deals with "Patents and Protection of Patent Rights," including the right to be free from infringement. §§251-329. Part II, entitled "Patentability of Inventions and Grants of Patents," defines what constitutes a valid patent. §§100-212. Further, noninfringement and invalidity are listed as two separate defenses, see §§282(b)(1), (2), and defendants are free to raise either or both of them. See *Cardinal*, *supra*, at 98. Were this Court to interpret §271(b) as permitting a defense of belief in invalidity, it would conflate the issues of infringement and validity.

Allowing this new defense would also undermine a presumption that is a "common core of thought and truth" reflected in this Court's precedents for a century. *Radio Corp. of America v. Radio Engineering Laboratories, Inc.*, 293 U.S. 1, 8 (1934). Under the Patent Act, and the case law before its passage, a patent is "presumed valid." §282(a); *id.*, at 8. That presumption takes away any need for a plaintiff to prove his patent is valid to bring a claim. But if belief in invalidity were a defense to induced infringement, the force of that presumption would be lessened to a drastic degree, for a defendant could prevail if he proved he reasonably believed the patent was invalid. That would circumvent the high bar Congress is presumed to have chosen: the clear and convincing standard. See *Microsoft Corp. v. i4i Ltd. Partnership*, 564 U.S. ___, ___ - ___ (2011). Defendants must meet that standard to rebut the presumption of validity. *Ibid.*

To say that an invalid patent cannot be infringed, or that someone cannot be induced to infringe an invalid patent, is in one sense a simple truth, both as a matter of logic and semantics. See *M. Swift & Sons, Inc. v. W. H. Coe Mfg. Co.*, 102 F. 2d 391, 396 (CA1 1939). But the questions courts must address when interpreting and implementing the statutory framework require a determination of the procedures and sequences that the parties must follow to prove the act of wrongful inducement and any related issues of patent validity. "Validity and infringement are distinct issues, bearing different burdens, different presumptions, and different evidence." 720 F. 3d, at 1374 (opinion of Newman, J.). To be sure, if at the end of the day, an act that would have been an infringement or an inducement to infringe pertains to a patent that is shown to be invalid, there is no patent to be infringed. But the allocation of the burden to persuade on these questions, and the timing for the presentations of the relevant arguments, are concerns of central relevance to the orderly administration of the patent system.

Invalidity is an affirmative defense that "can preclude enforcement of a patent against otherwise infringing conduct." 6A Chisum on Patents §19.01, p. 19-5 (2015). An accused

infringer can, of course, attempt to prove that the patent in suit is invalid; if the patent is indeed invalid, and shown to be so under proper procedures, there is no liability. See *i4i*, supra, at ____–____, 131 S. Ct. 2238. That is because invalidity is not a defense to infringement, it is a defense to liability. And because of that fact, a belief as to invalidity cannot negate the scienter required for induced infringement.

There are also practical reasons not to create a defense based on a good-faith belief in invalidity. First and foremost, accused inducers who believe a patent is invalid have various proper ways to obtain a ruling to that effect. They can file a declaratory judgment action asking a federal court to declare the patent invalid. See *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 137 (2007). They can seek inter partes review at the Patent Trial and Appeal Board and receive a decision as to validity within 12 to 18 months. See §316. Or they can, as Cisco did here, seek ex parte reexamination of the patent by the Patent and Trademark Office. §302. And, of course, any accused infringer who believes the patent in suit is invalid may raise the affirmative defense of invalidity. §282(b)(2). If the defendant is successful, he will be immune from liability.

Creating a defense of belief in invalidity, furthermore, would have negative consequences. It can render litigation more burdensome for everyone involved. Every accused inducer would have an incentive to put forth a theory of invalidity and could likely come up with myriad arguments. See Sloan, Think it is Invalid? A New Defense to Negate Intent for Induced Infringement, 23 Fed. Cir. B. J. 613, 618 (2013). And since “it is often more difficult to determine whether a patent is valid than whether it has been infringed,” *Cardinal*, 508 U.S., at 99, accused inducers would likely find it easier to prevail on a defense regarding the belief of invalidity than noninfringement. In addition the need to respond to the defense will increase discovery costs and multiply the issues the jury must resolve. Indeed, the jury would be put to the difficult task of separating the defendant’s belief regarding validity from the actual issue of validity.

As a final note, “[o]ur law is . . . no stranger to the possibility that an act may be ‘intentional’ for purposes of civil liability, even if the actor lacked actual knowledge that her conduct violated the law.” *Jerman v. Carlisle, McNellie, Rini, Kramer & Ulrich, L. P. A.*, 559 U.S. 573, 582–583 (2010). Tortious interference with a contract provides an apt example. While the invalidity of a contract is a defense to tortious interference, belief in validity is irrelevant. Restatement (Second) of Torts §766, Comment i (1979). See also W. Keeton, D. Dobbs, R. Keeton, & D. Owen, *Prosser and Keeton on Law of Torts* 110 (5th ed. 1984). In a similar way, a trespass “can be committed despite the actor’s mistaken belief that she has a legal right to enter the property.” *Jerman*, supra, at 583 (citing Restatement (Second) of Torts §164, and Comment e (1963–1964)). And of course, “[t]he general rule that ignorance of the law or a mistake of law is no defense to criminal prosecution is deeply rooted in the American legal system.” *Cheek v. United States*, 498 U.S. 192, 199 (1991). In the usual case, “I thought it was legal” is no defense. That concept mirrors this Court’s holding that belief in invalidity will not negate the scienter required under §271(b).

III

The Court is well aware that an “industry has developed in which firms use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees.” *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 396 (2006) (KENNEDY, J., concurring). Some companies may use patents as a sword to go after defendants for money, even when their claims are frivolous. This tactic is often pursued through demand letters, which “may be sent very broadly and without prior investigation, may assert vague claims of infringement, and may be designed to obtain payments that are based more on the costs of defending litigation than on the merit of the patent claims.” L. Greisman, Prepared Statement of the Federal Trade Commission on Discussion Draft of Patent Demand Letter Legislation before the Subcommittee on

Commerce, Manufacturing, and Trade of the House Committee on Energy and Commerce 2 (2014). This behavior can impose a “harmful tax on innovation.” Ibid.

No issue of frivolity has been raised by the parties in this case, nor does it arise on the facts presented to this Court. Nonetheless, it is still necessary and proper to stress that district courts have the authority and responsibility to ensure frivolous cases are dissuaded. If frivolous cases are filed in federal court, it is within the power of the court to sanction attorneys for bringing such suits. Fed. Rule Civ. Proc. 11. It is also within the district court’s discretion to award attorney’s fees to prevailing parties in “exceptional cases.” 35 U.S.C. §285; see also *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 572 U.S. ___, ___-___ (2014). These safeguards, combined with the avenues that accused inducers have to obtain rulings on the validity of patents, militate in favor of maintaining the separation expressed throughout the Patent Act between infringement and validity. This dichotomy means that belief in invalidity is no defense to a claim of induced infringement.

The judgment of the United States Court of Appeals for the Federal Circuit is vacated, and the case is remanded for further proceedings consistent with this opinion.

It is so ordered.

JUSTICE BREYER took no part in the consideration or decision of this case.

JUSTICE SCALIA, with whom THE CHIEF JUSTICE joins, dissenting.

I agree with the Court’s rejection of the main argument advanced by Commil and the United States, that induced infringement under 35 U.S.C. §271(b) does not “requir[e] knowledge of the infringing nature of the induced acts.” Brief for United States as Amicus Curiae 9; see also Brief for Petitioner 15-44. I disagree, however, with the Court’s holding that good-faith belief in a patent’s invalidity is not a defense to induced infringement.

Infringing a patent means invading a patentee’s exclusive right to practice his claimed invention. *Crown Die & Tool Co. v. Nye Tool & Machine Works*, 261 U.S. 24, 40 (1923) (quoting 3 W. Robinson, *Law of Patents* §937, pp. 122-123 (1890)). Only valid patents confer this right to exclusivity—invalid patents do not. *FTC v. Actavis, Inc.*, 570 U.S. ___, ___ (2013). It follows, as night the day, that only valid patents can be infringed. To talk of infringing an invalid patent is to talk nonsense.

Induced infringement, we have said, “requires knowledge that the induced acts constitute patent infringement.” *Global-Tech Appliances, Inc. v. SEB S. A.*, 131 S. Ct. 2060, 2068 (2011). Because only valid patents can be infringed, anyone with a good-faith belief in a patent’s invalidity necessarily believes the patent cannot be infringed. And it is impossible for anyone who believes that a patent cannot be infringed to induce actions that he knows will infringe it. A good-faith belief that a patent is invalid is therefore a defense to induced infringement of that patent. ...

NOTES AND QUESTIONS ON *COMMIL*

1. The Infringement-Validity Split. Together *Commil* and the prior *Global-Tech* decision define a split: Induced infringement requires proof that the defendant the induced acts constituted infringement (or was willfully blind to that possibility), but it requires no proof concerning the defendant’s awareness of patent validity. Thus, a good faith belief in non-infringement will protect a defendant from liability, but a good faith belief in a patent’s invalidity will not. Does this split make sense? Is it true, as the Court asserts, that “it is often more difficult to determine whether a patent is valid than whether it has been infringed”? Is the statutory presumption of patent validity the key to the Court’s holding in *Commil*?

2. Claim-by-Claim or Patent-by-Patent. Consider this hypothetical: A patent issues

with a broader claim 1 and a narrower claim 2. Company A is inducing its customers to take steps that it knows infringe claim 1, but Company A does not believe that the induced steps infringe claim 2 (and the company is not being willfully blind to the possibility of infringement of claim 2). The patentee sues Company A for infringement of claims 1 & 2. Claim 1 is held invalid; claim 2 valid. Should Company A be liable for inducing infringement of the patent? Or equivalently, which of the following two jury instructions is valid:

- a. “To find that the defendant induced infringement, you the members of the jury must find that the defendant knew that the actions induced by it constituted infringement of *the plaintiff’s patent*.”
- b. “To find that the defendant induced infringement, you the members of the jury must find that the defendant knew that the actions induced by it constituted infringement of *at least one claim in the plaintiff’s patent that has been determined in this litigation to be not invalid*.”

3. The Market for Beliefs. Imagine you are the general counsel of a large company and you are hiring a new outside patent counsel for your firm. Two candidates X and Y from different law firms are being interviewed. You give each of the candidates a test about how they would interpret patent claims. Candidate X tends to interpret claims broadly; Candidate Y tends to interpret them narrowly. If your firm is frequently charged with inducing infringement, do the results of the test give you a reason to prefer one candidate over another?

Chapter 9: Remedies

Chap. 9.A. Insert after *eBay*, p. 902, the following new note:

11. Injunction Statistics After *eBay*. The very useful “Patstats” website from the University of Houston Law School provides some useful information. See <http://www.patstats.org/Patstats2.html>, at tab “Post-eBay Permanent Injunction Rulings in Patent Cases to 12/31/13”. The spreadsheet available at this site shows 234 cases since *eBay* in 2006 where permanent injunctions were considered; the courts granted injunctions in 76% of the cases (178 out of 234 cases).

Chap. 9.D, 9.E & 9.F: In place of subchapters 9.D, 9.E & 9.F, substitute following new subchapters:

D. ATTORNEY FEES IN EXCEPTIONAL CASES

Octane Fitness, LLC. v. Icon Health & Fitness, Inc.

134 S.Ct. 1749 (2014)

Justice SOTOMAYOR delivered the opinion of the Court.

Section 285 of the Patent Act authorizes a district court to award attorney’s fees in patent litigation. It provides, in its entirety, that “[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party.” 35 U.S.C. § 285. In *Brooks Furniture Mfg., Inc. v. Dutailier Int’l, Inc.*, 393 F.3d 1378 (2005), the United States Court of Appeals for the Federal Circuit held that “[a] case may be deemed exceptional” under § 285 only in two limited circumstances: “when there has been some material inappropriate conduct,” or when the litigation is both “brought in subjective bad faith” and “objectively baseless.” *Id.*, at 1381. The question before us is whether the Brooks Furniture framework is consistent with the statutory text. We hold that it is not.

I A

Prior to 1946, the Patent Act did not authorize the awarding of attorney’s fees to the prevailing party in patent litigation. Rather, the “American Rule” governed: “‘[E]ach litigant pa[id] his own attorney’s fees, win or lose....’” *Marx v. General Revenue Corp.*, 568 U.S. —, —, 133 S.Ct. 1166, 1175, 185 L.Ed.2d 242 (2013). In 1946, Congress amended the Patent Act to add a discretionary fee-shifting provision, then codified in § 70, which stated that a court “may in its discretion award reasonable attorney’s fees to the prevailing party upon the entry of judgment in any patent case.” 35 U.S.C. § 70 (1946 ed.).¹

Courts did not award fees under § 70 as a matter of course. They viewed the award of fees not “as a penalty for failure to win a patent infringement suit,” but as appropriate “only in extraordinary circumstances.” *Park-In-Theatres, Inc. v. Perkins*, 190 F.2d 137, 142 (C.A.9 1951). The provision enabled them to address “unfairness or bad faith in the conduct of the losing party, or some other equitable consideration of similar force,” which made a case so unusual as to warrant fee-shifting. *Ibid.*; see also *Pennsylvania Crusher Co. v. Bethlehem Steel Co.*, 193 F.2d

445, 451 (C.A.3 1951) (listing as “adequate justification[s]” for fee awards “fraud practiced on the Patent Office or vexatious or unjustified litigation”).

Six years later, Congress amended the fee-shifting provision and recodified it as § 285. Whereas § 70 had specified that a district court could “in its discretion award reasonable attorney’s fees to the prevailing party,” the revised language of § 285 (which remains in force today) provides that “[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party.” We have observed, in interpreting the damages provision of the Patent Act, that the addition of the phrase “exceptional cases” to § 285 was “for purposes of clarification only.”² *General Motors Corp. v. Devex Corp.*, 461 U.S. 648, 653, n. 8, 103 S.Ct. 2058, 76 L.Ed.2d 211 (1983); see also *id.*, at 652, n. 6, 103 S.Ct. 2058. And the parties agree that the recodification did not substantively alter the meaning of the statute.³

For three decades after the enactment of § 285, courts applied it—as they had applied § 70—in a discretionary manner, assessing various factors to determine whether a given case was sufficiently “exceptional” to warrant a fee award. See, e.g., *True Temper Corp. v. CF & I Steel Corp.*, 601 F.2d 495, 508–509 (C.A.10 1979); *Kearney & Trecker Corp. v. Giddings & Lewis, Inc.*, 452 F.2d 579, 597 (C.A.7 1971); *Siebring v. Hansen*, 346 F.2d 474, 480–481 (C.A.8 1965).

In 1982, Congress created the Federal Circuit and vested it with exclusive appellate jurisdiction in patent cases. 28 U.S.C. § 1295. In the two decades that followed, the Federal Circuit, like the regional circuits before it, instructed district courts to consider the totality of the circumstances when making fee determinations under § 285. See, e.g., *Rohm & Haas Co. v. Crystal Chemical Co.*, 736 F.2d 688, 691 (C.A.Fed.1984) (“Cases decided under § 285 have noted that ‘the substitution of the phrase “in exceptional cases” has not done away with the discretionary feature’ ”); *Yamanouchi Pharmaceutical Co., Ltd. v. Danbury Pharmacal, Inc.*, 231 F.3d 1339, 1347 (C.A.Fed.2000) (“In assessing whether a case qualifies as exceptional, the district court must look at the totality of the circumstances”).

In 2005, however, the Federal Circuit abandoned that holistic, equitable approach in favor of a more rigid and mechanical formulation. In *Brooks Furniture Mfg., Inc. v. Dutailier Int’l, Inc.*, 393 F.3d 1378 (2005), the court held that a case is “exceptional” under § 285 only “when there has been some material inappropriate conduct related to the matter in litigation, such as willful infringement, fraud or inequitable conduct in procuring the patent, misconduct during litigation, vexatious or unjustified litigation, conduct that violates Fed.R.Civ.P. 11, or like infractions.” *Id.*, at 1381. “Absent misconduct in conduct of the litigation or in securing the patent,” the Federal Circuit continued, fees “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.” *Ibid.* The Federal Circuit subsequently clarified that litigation is objectively baseless only if it is “so unreasonable that no reasonable litigant could believe it would succeed,” *iLOR, LLC v. Google, Inc.*, 631 F.3d 1372, 1378 (2011), and that litigation is brought in subjective bad faith only if the plaintiff “actually know[s]” that it is objectively baseless, *id.*, at 1377.⁴

Finally, *Brooks Furniture* held that because “[t]here is a presumption that the assertion of infringement of a duly granted patent is made in good faith[,] ... the underlying improper conduct and the characterization of the case as exceptional must be established by clear and convincing evidence.” 393 F.3d, at 1382.

B

The parties to this litigation are manufacturers of exercise equipment. The respondent, ICON Health & Fitness, Inc., owns U.S. Patent No. 6,019,710 ('710 patent), which discloses an elliptical exercise machine that allows for adjustments to fit the individual stride paths of users. ICON is a major manufacturer of exercise equipment, but it has never commercially sold the machine disclosed in the '710 patent. The petitioner, Octane Fitness, LLC, also manufactures exercise equipment, including elliptical machines known as the Q45 and Q47.

ICON sued Octane, alleging that the Q45 and Q47 infringed several claims of the '710 patent. The District Court granted Octane's motion for summary judgment, concluding that Octane's machines did not infringe ICON's patent. 2011 WL 2457914 (D.Minn., June 17, 2011). Octane then moved for attorney's fees under § 285. Applying the Brooks Furniture standard, the District Court denied Octane's motion. 2011 WL 3900975 (D.Minn., Sept. 6, 2011). It determined that Octane could show neither that ICON's claim was objectively baseless nor that ICON had brought it in subjective bad faith. As to objective baselessness, the District Court rejected Octane's argument that the judgment of noninfringement "should have been a foregone conclusion to anyone who visually inspected" Octane's machines. *Id.*, *2. The court explained that although it had rejected ICON's infringement arguments, they were neither "frivolous" nor "objectively baseless." *Id.*, *2–*3. The court also found no subjective bad faith on ICON's part, dismissing as insufficient both "the fact that [ICON] is a bigger company which never commercialized the '710 patent" and an e-mail exchange between two ICON sales executives, which Octane had offered as evidence that ICON had brought the infringement action "as a matter of commercial strategy." *Id.*, *4.

ICON appealed the judgment of noninfringement, and Octane cross-appealed the denial of attorney's fees. The Federal Circuit affirmed both orders. 496 Fed.Appx. 57 (2012). In upholding the denial of attorney's fees, it rejected Octane's argument that the District Court had "applied an overly restrictive standard in refusing to find the case exceptional under § 285." *Id.*, at 65. The Federal Circuit declined to "revisit the settled standard for exceptionality." *Ibid.*

We granted certiorari, 570 U.S. —, 134 S.Ct. 49, 186 L.Ed.2d 962 (2013), and now reverse.

II

The framework established by the Federal Circuit in *Brooks Furniture* is unduly rigid, and it impermissibly encumbers the statutory grant of discretion to district courts.

A

Our analysis begins and ends with the text of § 285: "The court in exceptional cases may award reasonable attorney fees to the prevailing party." This text is patently clear. It imposes one and only one constraint on district courts' discretion to award attorney's fees in patent litigation: The power is reserved for "exceptional" cases.

The Patent Act does not define "exceptional," so we construe it "in accordance with [its] ordinary meaning." *Sebelius v. Cloer*, 569 U.S. —, —, 133 S.Ct. 1886, 1893, 185 L.Ed.2d 1003 (2013); see also *Bilski v. Kappos*, 561 U.S. 593, —, 130 S.Ct. 3218, 3226, 177

L.Ed.2d 792 (2010) (“In patent law, as in all statutory construction, ‘[u]nless otherwise defined, “words will be interpreted as taking their ordinary, contemporary, common meaning” ’ ”). In 1952, when Congress used the word in § 285 (and today, for that matter, “[e]xceptional” meant “uncommon,” “rare,” or “not ordinary.” Webster’s New International Dictionary 889 (2d ed. 1934); see also 3 Oxford English Dictionary 374 (1933) (defining “exceptional” as “out of the ordinary course,” “unusual,” or “special”); Merriam–Webster’s Collegiate Dictionary 435 (11th ed. 2008) (defining “exceptional” as “rare”); Noxell Corp. v. Firehouse No. 1 Bar–B–Que Restaurant, 771 F.2d 521, 526 (C.A.D.C.1985) (R.B. Ginsburg, J., joined by Scalia, J.) (interpreting the term “exceptional” in the Lanham Act’s identical fee-shifting provision, 15 U.S.C. § 1117(a), to mean “uncommon” or “not run-of-the-mill”).

We hold, then, that an “exceptional” case is simply one that stands out from others with respect to the substantive strength of a party’s litigating position (considering both the governing law and the facts of the case) or the unreasonable manner in which the case was litigated. District courts may determine whether a case is “exceptional” in the case-by-case exercise of their discretion, considering the totality of the circumstances.⁶ As in the comparable context of the Copyright Act, “[t]here is no precise rule or formula for making these determinations,’ but instead equitable discretion should be exercised ‘in light of the considerations we have identified.’ ” *Fogerty v. Fantasy, Inc.*, 510 U.S. 517, 534, 114 S.Ct. 1023, 127 L.Ed.2d 455 (1994).

B
1

The Federal Circuit’s formulation is overly rigid. Under the standard crafted in *Brooks Furniture*, a case is “exceptional” only if a district court either finds litigation-related misconduct of an independently sanctionable magnitude or determines that the litigation was both “brought in subjective bad faith” and “objectively baseless.” 393 F.3d, at 1381. This formulation superimposes an inflexible framework onto statutory text that is inherently flexible.

For one thing, the first category of cases in which the Federal Circuit allows fee awards—those involving litigation misconduct or certain other misconduct—appears to extend largely to independently sanctionable conduct. See *ibid.* (defining litigation-related misconduct to include “willful infringement, fraud or inequitable conduct in procuring the patent, misconduct during litigation, vexatious or unjustified litigation, conduct that violates Fed.R.Civ.P. 11, or like infractions”). But sanctionable conduct is not the appropriate benchmark. Under the standard announced today, a district court may award fees in the rare case in which a party’s unreasonable conduct—while not necessarily independently sanctionable—is nonetheless so “exceptional” as to justify an award of fees.

The second category of cases in which the Federal Circuit allows fee awards is also too restrictive. In order for a case to fall within this second category, a district court must determine both that the litigation is objectively baseless and that the plaintiff brought it in subjective bad faith. But a case presenting either subjective bad faith or exceptionally meritless claims may sufficiently set itself apart from mine-run cases to warrant a fee award. Cf. *Noxell*, 771 F.2d, at 526 (“[W]e think it fair to assume that Congress did not intend rigidly to limit recovery of fees by a [Lanham Act] defendant to the rare case in which a court finds that the plaintiff ‘acted in bad faith, vexatiously, wantonly, or for oppressive reasons’.... Something less than ‘bad faith,’ we believe, suffices to mark a case as ‘exceptional’ ”).

ICON argues that the dual requirement of “subjective bad faith” and “objective baselessness” follows from this Court’s decision in *Professional Real Estate Investors, Inc. v.*

Columbia Pictures Industries, Inc., 508 U.S. 49, 113 S.Ct. 1920, 123 L.Ed.2d 611 (1993) (PRE), which involved an exception to the Noerr–Pennington doctrine of antitrust law. It does not. Under the Noerr–Pennington doctrine—established by *Eastern Railroad Presidents Conference v. Noerr Motor Freight, Inc.*, 365 U.S. 127, 81 S.Ct. 523, 5 L.Ed.2d 464 (1961), and *United Mine Workers v. Pennington*, 381 U.S. 657, 85 S.Ct. 1585, 14 L.Ed.2d 626 (1965)—defendants are immune from antitrust liability for engaging in conduct (including litigation) aimed at influencing decisionmaking by the government. PRE, 508 U.S., at 56, 113 S.Ct. 1920. But under a “sham exception” to this doctrine, “activity ‘ostensibly directed toward influencing governmental action’ does not qualify for Noerr immunity if it ‘is a mere sham to cover ... an attempt to interfere directly with the business relationships of a competitor.’ ” Id., at 51, 113 S.Ct. 1920. In PRE, we held that to qualify as a “sham,” a “lawsuit must be objectively baseless” and must “concea[l] ‘an attempt to interfere directly with the business relationships of a competitor....’ ” Id., at 60–61, 113 S.Ct. 1920 (emphasis deleted). In other words, the plaintiff must have brought baseless claims in an attempt to thwart competition (i.e., in bad faith).

In *Brooks Furniture*, the Federal Circuit imported the PRE standard into § 285. See 393 F.3d, at 1381. But the PRE standard finds no roots in the text of § 285, and it makes little sense in the context of determining whether a case is so “exceptional” as to justify an award of attorney’s fees in patent litigation. We crafted the Noerr–Pennington doctrine—and carved out only a narrow exception for “sham” litigation—to avoid chilling the exercise of the First Amendment right to petition the government for the redress of grievances. See PRE, 508 U.S., at 56, 113 S.Ct. 1920 (“Those who petition government for redress are generally immune from antitrust liability”). But to the extent that patent suits are similarly protected as acts of petitioning, it is not clear why the shifting of fees in an “exceptional” case would diminish that right. The threat of antitrust liability (and the attendant treble damages, 15 U.S.C. § 15) far more significantly chills the exercise of the right to petition than does the mere shifting of attorney’s fees. In the Noerr–Pennington context, defendants seek immunity from a judicial declaration that their filing of a * lawsuit was actually unlawful; here, they seek immunity from a far less onerous declaration that they should bear the costs of that lawsuit in exceptional cases.

2

We reject *Brooks Furniture* for another reason: It is so demanding that it would appear to render § 285 largely superfluous. We have long recognized a common-law exception to the general “American rule” against fee-shifting—an exception, “inherent” in the “power [of] the courts” that applies for “ ‘willful disobedience of a court order’ ” or “when the losing party has ‘acted in bad faith, vexatiously, wantonly, or for oppressive reasons....’ ” *Alyeska Pipeline Service Co. v. Wilderness Society*, 421 U.S. 240, 258–259, 95 S.Ct. 1612, 44 L.Ed.2d 141 (1975). We have twice declined to construe fee-shifting provisions narrowly on the basis that doing so would render them superfluous, given the background exception to the American rule, see *Christiansburg Garment Co. v. EEOC*, 434 U.S. 412, 419, 98 S.Ct. 694, 54 L.Ed.2d 648 (1978); *Newman v. Piggie Park Enterprises, Inc.*, 390 U.S. 400, 402, n. 4, 88 S.Ct. 964, 19 L.Ed.2d 1263 (1968) (per curiam), and we again decline to do so here.

3

Finally, we reject the Federal Circuit’s requirement that patent litigants establish their entitlement to fees under § 285 by “clear and convincing evidence,” *Brooks Furniture*, 393 F.3d, at 1382. We have not interpreted comparable fee-shifting statutes to require proof of entitlement to fees by clear and convincing evidence. See, e.g., *Fogerty*, 510 U.S., at 519, 114 S.Ct. 1023; *Cooter & Gell v. Hartmarx Corp.*, 496 U.S. 384, 110 S.Ct. 2447, 110 L.Ed.2d 359 (1990); *Pierce*

v. Underwood, 487 U.S. 552, 558, 108 S.Ct. 2541, 101 L.Ed.2d 490 (1988). And nothing in § 285 justifies such a high standard of proof. Section 285 demands a simple discretionary inquiry; it imposes no specific evidentiary burden, much less such a high one. Indeed, patent-infringement litigation has always been governed by a preponderance of the evidence standard, see, e.g., *Bene v. Jeantet*, 129 U.S. 683, 688, 9 S.Ct. 428, 32 L.Ed. 803 (1889), and that is the “standard generally applicable in civil actions,” because it “allows both parties to ‘share the risk of error in roughly equal fashion,’ ” *Herman & MacLean v. Huddleston*, 459 U.S. 375, 390, 103 S.Ct. 683, 74 L.Ed.2d 548 (1983).

* * *

For the foregoing reasons, the judgment of the United States Court of Appeals for the Federal Circuit is reversed, and the case is remanded for further proceedings consistent with this opinion.

It is so ordered

Highmark Inc. v. Allcare Health Management System

134 S.Ct. 1744 (2014)

Justice SOTOMAYOR delivered the opinion of the Court.

Section 285 of the Patent Act provides: “The court in exceptional cases may award reasonable attorney fees to the prevailing party.” 35 U.S.C. § 285. In *Brooks Furniture Mfg., Inc. v. Dutailier Int’l, Inc.*, 393 F.3d 1378 (2005), the United States Court of Appeals for the Federal Circuit interpreted § 285 as authorizing fee awards only in two circumstances. It held that “[a] case may be deemed exceptional” under § 285 “when there has been some material inappropriate conduct,” or when it is both “brought in subjective bad faith” and “objectively baseless.” *Id.*, at 1381. We granted certiorari to determine whether an appellate court should accord deference to a district court’s determination that litigation is “objectively baseless.” *1747 On the basis of our opinion in *Octane Fitness, LLC v. Icon Health & Fitness, Inc.*, — U.S. —, 134 S.Ct. 1749, — L.Ed.2d —, 2014 WL 1672251 (2014) argued together with this case and also issued today, we hold that an appellate court should review all aspects of a district court’s § 285 determination for abuse of discretion.

I

Allcare Health Management System, Inc., owns U.S. Patent No. 5,301,105 (105 patent), which covers “utilization review” in “ ‘managed health care systems.’ ” 1687 F.3d 1300, 1306 (C.A.Fed.2012). Highmark Inc., a health insurance company, sued Allcare seeking a declaratory judgment that the ’105 patent was invalid and unenforceable and that, to the extent it was valid, Highmark’s actions were not infringing it. Allcare counterclaimed for patent infringement. Both parties filed motions for summary judgment, and the District Court entered a final judgment of noninfringement in favor of Highmark. The Federal Circuit affirmed. 329 Fed.Appx. 280 (2009) (per curiam).

Highmark then moved for fees under § 285. The District Court granted Highmark’s motion. 706 F.Supp.2d 713 (N.D.Tex.2010). The court reasoned that Allcare had engaged in a pattern of “vexatious” and “deceitful” conduct throughout the litigation. *Id.*, at 737. Specifically,

it found that Allcare had “pursued this suit as part of a bigger plan to identify companies potentially infringing the ‘105 patent under the guise of an informational survey, and then to force those companies to purchase a license of the ‘105 patent under threat of litigation.” *Id.*, at 736–737. And it found that Allcare had “maintained infringement claims [against Highmark] well after such claims had been shown by its own experts to be without merit” and had “asserted defenses it and its attorneys knew to be frivolous.” *Id.*, at 737. In a subsequent opinion, the District Court fixed the amount of the award at \$4,694,727.40 in attorney’s fees and \$209,626.56 in expenses, in addition to \$375,400.05 in expert fees. 2010 WL 6432945, *7 (N.D.Tex., Nov. 5, 2010).

The Federal Circuit affirmed in part and reversed in part. 687 F.3d 1300. It affirmed the District Court’s exceptional-case determination with respect to the allegations that Highmark’s system infringed one claim of the ‘105 patent, *id.*, at 1311–1313, but reversed the determination with respect to another claim of the patent, *id.*, at 1313–1315. In reversing the exceptional-case determination as to one claim, the court reviewed it *de novo*. The court held that because the question whether litigation is “objectively baseless” under *Brooks Furniture* “‘is a question of law based on underlying mixed questions of law and fact,’ ” an objective-baselessness determination is reviewed on appeal “‘*de novo*’ ” and “without deference.” 687 F.3d, at 1309; see also *ibid.*, n. 1. It then determined, contrary to the judgment of the District Court, that “Allcare’s argument” as to claim construction “was not ‘so unreasonable that no reasonable litigant could believe it would succeed.’ ” *Id.*, at 1315. The court further found that none of Allcare’s conduct warranted an award of fees under the litigation-misconduct prong of *Brooks Furniture*. 687 F.3d, at 1315–1319.

Judge Mayer dissented in part, disagreeing with the view “that no deference is owed to a district court’s finding that the infringement claims asserted by a litigant *1748 at trial were objectively unreasonable.” *Id.*, at 1319. He would have held that “reasonableness is a finding of fact which may be set aside only for clear error.” *Ibid.* The Federal Circuit denied rehearing *en banc*, over the dissent of five judges. 701 F.3d 1351 (2012). The dissenting judges criticized the court’s decision to adopt a *de novo* standard of review for the “objectively baseless” determination as an impermissible invasion of the province of the district court. *Id.*, at 1357.

We granted certiorari, 570 U.S. —, 134 S.Ct. 48, 186 L.Ed.2d 962 (2013), and now vacate and remand.

II

Our opinion in *Octane Fitness, LLC v. Icon Health & Fitness, Inc.*, rejects the *Brooks Furniture* framework as unduly rigid and inconsistent with the text of § 285. It holds, instead, that the word “exceptional” in § 285 should be interpreted in accordance with its ordinary meaning. — U.S., at —, 134 S.Ct., at 1755 – 1756, 2014 WL 1672251 *5. An “exceptional” case, it explains, “is simply one that stands out from others with respect to the substantive strength of a party’s litigating position (considering both the governing law and the facts of the case) or the unreasonable manner in which the case was litigated.” — U.S., at —, 134 S.Ct., at 1756, 2014 WL 1672251, *5. And it instructs that “[d]istrict courts may determine whether a case is ‘exceptional’ in the case-by-case exercise of their discretion, considering the totality of the circumstances.” — U.S., at —, 134 S.Ct., at 1748, 2014 WL 1672251, *5. Our holding in *Octane* settles this case: Because § 285 commits the determination whether a case is “exceptional” to the discretion of the district court, that decision is to be reviewed on appeal for abuse of discretion.

Traditionally, decisions on “questions of law” are “reviewable *de novo*,” decisions on “questions of fact” are “reviewable for clear error,” and decisions on “matters of discretion” are

“reviewable for ‘abuse of discretion.’ ” *Pierce v. Underwood*, 487 U.S. 552, 558, 108 S.Ct. 2541, 101 L.Ed.2d 490 (1988). For reasons we explain in *Octane*, the determination whether a case is “exceptional” under § 285 is a matter of discretion. And as in our prior cases involving similar determinations, the exceptional-case determination is to be reviewed only for abuse of discretion.² See *Pierce*, 487 U.S., at 559, 108 S.Ct. 2541 (determinations whether a litigating position is “substantially justified” for purposes of fee-shifting under the Equal Access to Justice Act are to be reviewed for abuse of discretion); *Cooter & Gell v. Hartmarx Corp.*, 496 U.S. 384, 405, 110 S.Ct. 2447, 110 L.Ed.2d 359 (1990) (sanctions under Federal Rule of Civil Procedure 11 are to be reviewed for abuse of discretion).

As in *Pierce*, the text of the statute “emphasizes the fact that the determination is for the district court,” which “suggests some deference to the district court upon appeal,” 487 U.S., at 559, 108 S.Ct. 2541. As in *Pierce*, “as a matter of the sound administration of justice,” the district court “is better positioned” to decide whether a case is exceptional, *id.*, at 559–560, 108 S.Ct. 2541, because it lives with the case over a prolonged period of time. And as in *Pierce*, the question is “multifarious *1749 and novel,” not susceptible to “useful generalization” of the sort that *de novo* review provides, and “likely to profit from the experience that an abuse-of-discretion rule will permit to develop,” *id.*, at 562, 108 S.Ct. 2541.

We therefore hold that an appellate court should apply an abuse-of-discretion standard in reviewing all aspects of a district court’s § 285 determination. Although questions of law may in some cases be relevant to the § 285 inquiry, that inquiry generally is, at heart, “rooted in factual determinations,” *Cooter*, 496 U.S., at 401, 110 S.Ct. 2447.

* * *

The judgment of the United States Court of Appeals for the Federal Circuit is vacated, and the case is remanded for further proceedings consistent with this opinion.

It is so ordered.

E. ENHANCED DAMAGES & WILLFUL INFRINGEMENT

Patent Act § 284 says simply: “[T]he court may award increased damages up to three times the amount found or assessed.” The magnitude of what is at stake under this section of the Patent Act is illustrated by *Polaroid Corp. v. Eastman Kodak Co.*, 16 U.S.P.Q.2d (BNA) 1481 (D. Mass. 1990), *modified*, 17 U.S.P.Q.2d (BNA) 1711 (D. Mass. 1991), which resulted in damages of almost \$900 million. If the damages had been trebled in this case, they would have totaled almost \$2.7 billion. U.S.P.Q.2d (BNA) 1481 (D. Mass. 1990), *modified*, 17 U.S.P.Q.2d (BNA) 1711 (D. Mass. 1991). Under the Federal Circuit case of *In re Seagate Technology, LLC.*, 497 F.3d 1360 (Fed. Cir. 2007) (en banc), patentees had to show both that infringement was objectively baseless and that the infringer acted intentionally or at least recklessly. This standard was reviewed, and rejected, by the Supreme Court in 2016 in the following case:

Halo Electronics, Inc. v. Pulse Electronics, Inc.
136 S.Ct. 1923 (2016)

Roberts, Chief Justice:

Section 284 of the Patent Act provides that, in a case of infringement, courts “may increase the damages up to three times the amount found or assessed.” 35 U.S.C. §284. In *In re Seagate Technology, LLC*, 497 F. 3d 1360 (2007) (en banc), the United States Court of Appeals for the Federal Circuit adopted a two-part test for determining when a district court may increase damages pursuant to §284. Under *Seagate*, a patent owner must first “show by clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent.” *Id.*, at 1371. Second, the patentee must demonstrate, again by clear and convincing evidence, that the risk of infringement “was either known or so obvious that it should have been known to the accused infringer.” *Ibid.* The question before us is whether this test is consistent with §284. We hold that it is not.

I

A

Enhanced damages are as old as U.S. patent law. The Patent Act of 1793 mandated treble damages in any successful infringement suit. *See* Patent Act of 1793, §5, 1 Stat. 322. In the Patent Act of 1836, however, Congress changed course and made enhanced damages discretionary, specifying that “it shall be in the power of the court to render judgment for any sum above the amount found by [the] verdict . . . not exceeding three times the amount thereof, according to the circumstances of the case.” Patent Act of 1836, §14, 5 Stat. 123. In construing that new provision, this Court explained that the change was prompted by the “injustice” of subjecting a “defendant who acted in ignorance or good faith” to the same treatment as the “wanton and malicious pirate.” *Seymour v. McCormick*, 16 How. 480, 488 (1854). There “is no good reason,” we observed, “why taking a man’s property in an invention should be trebly punished, while the measure of damages as to other property is single and actual damages.” *Id.*, at 488–489. But “where the injury is wanton or malicious, a jury may inflict vindictive or exemplary damages, not to recompense the plaintiff, but to punish the defendant.” *Id.*, at 489. . . .

In 1870, Congress amended the Patent Act, but preserved district court discretion to award up to treble damages “according to the circumstances of the case.” Patent Act of 1870, §59, 16 Stat. 207. We continued to describe enhanced damages as “vindictive or punitive,” which the court may “inflict” when “the circumstances of the case appear to require it.” *Tilghman v. Proctor*, 125 U.S. 136, 143–144 (1888); *Topliff v. Topliff*, 145 U.S. 156, 174 (1892) (infringer knowingly sold copied technology of his former employer). At the same time, we reiterated that there was no basis for increased damages where “[t]here is no pretence of any wanton and wilful breach” and “nothing that suggests punitive damages, or that shows wherein the defendant was damnified other than by the loss of the profits which the plaintiff received.” *Cincinnati Siemens-Lungren Gas Illuminating Co. v. Western Siemens-Lungren Co.*, 152 U.S. 200, 204 (1894). . . .

Some early decisions did suggest that enhanced damages might serve to compensate patentees as well as to punish infringers. *See, e.g., Clark v. Wooster*, 119 U.S. 322, 326 (1886) (noting that “[t]here may be damages beyond” licensing fees “but these are more properly the subjects” of enhanced damage awards). Such statements, however, were not for the ages, in part because the merger of law and equity removed certain procedural obstacles to full compensation

absent enhancement. *See generally* 7 Chisum on Patents §20.03[4][b][iii] (2011). In the main, moreover, the references to compensation concerned costs attendant to litigation. *See Clark*, 119 U.S., at 326 (identifying enhanced damages as compensation for “the expense and trouble the plaintiff has been put to”). That concern dissipated with the enactment in 1952 of 35 U.S.C. §285, which authorized district courts to award reasonable attorney’s fees to prevailing parties in “exceptional cases” under the Patent Act. *See Octane Fitness, LLC v. ICON Health & Fitness Inc.*, 134 S.Ct. 1749 (2014).

It is against this backdrop that Congress, in the 1952 codification of the Patent Act, enacted §284. “The stated purpose” of the 1952 revision “was merely reorganization in language to clarify the statement of the statutes.” *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 505, n.20 (1964) (internal quotation marks omitted). This Court accordingly described § 284—consistent with the history of enhanced damages under the Patent Act—as providing that “punitive or ‘increased’ damages” could be recovered “in a case of willful or bad-faith infringement.” *Id.*, at 508.

B

In 2007, the Federal Circuit decided *Seagate* and fashioned the test for enhanced damages now before us. Under *Seagate*, a plaintiff seeking enhanced damages must show that the infringement of his patent was “willful.” 497 F. 3d, at 1368. The Federal Circuit announced a two-part test to establish such willfulness: First, “a patentee must show by clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent,” without regard to “[t]he state of mind of the accused infringer.” *Id.*, at 1371. This objectively defined risk is to be “determined by the record developed in the infringement proceedings.” *Ibid.* “Objective recklessness will not be found” at this first step if the accused infringer, during the infringement proceedings, “raise[s] a ‘substantial question’ as to the validity or noninfringement of the patent.” *Bard Peripheral Vascular, Inc. v. W. L. Gore & Assoc., Inc.*, 776 F. 3d 837, 844 (CA Fed. 2015). That categorical bar applies even if the defendant was unaware of the arguable defense when he acted. *See Seagate*, 497 F. 3d, at 1371.

Second, after establishing objective recklessness, a patentee must show—again by clear and convincing evidence—that the risk of infringement “was either known or so obvious that it should have been known to the accused infringer.” *Seagate*, 497 F. 3d, at 1371. Only when both steps have been satisfied can the district court proceed to consider whether to exercise its discretion to award enhanced damages. *Ibid.*

Under Federal Circuit precedent, an award of enhanced damages is subject to trifurcated appellate review. The first step of *Seagate*—objective recklessness—is reviewed *de novo*; the second—subjective knowledge—for substantial evidence; and the ultimate decision—whether to award enhanced damages—for abuse of discretion. *See Bard Peripheral Vascular, Inc. v. W. L. Gore & Assoc., Inc.*, 682 F. 3d 1003, 1005, 1008 (CA Fed. 2012).

C

1

Petitioner Halo Electronics, Inc., and respondent Pulse Electronics, Inc. supply electronic components. 769 F. 3d 1371, 1374–1375 (CA Fed. 2014). Halo alleges that Pulse infringed its patents for electronic packages containing transformers designed to be mounted to the surface of circuit boards. *Id.*, at 1374. In 2002, Halo sent Pulse two letters offering to license Halo’s patents. *Id.*, at 1376. After one of its engineers concluded that Halo’s patents were invalid, Pulse continued to sell the allegedly infringing products. *Ibid.*

In 2007, Halo sued Pulse. *Ibid.* The jury found that Pulse had infringed Halo’s patents, and that there was a high probability it had done so willfully. *Ibid.* The District Court, however, declined to award enhanced damages under §284, after determining that Pulse had at trial presented a defense that “was not objectively baseless, or a ‘sham.’” App. to Pet. for Cert. in No. 14–1513, p. 64a (quoting *Bard*, 682 F. 3d, at 1007). Thus, the court concluded, Halo had failed to show objective recklessness under the first step of *Seagate*. The Federal Circuit affirmed.

2

Petitioner Stryker Corporation and respondent Zimmer, Inc. compete in the market for orthopedic pulsed lavage devices. A pulsed lavage device is a combination spray gun and suction tube, used to clean tissue during surgery. In 2010, Stryker sued Zimmer for patent infringement. The jury found that Zimmer had willfully infringed Stryker’s patents and awarded Stryker \$70 million in lost profits. The District Court added \$6.1 million in supplemental damages and then trebled the total sum under §284, resulting in an award of over \$228 million.

Specifically, the District Court noted, the jury had heard testimony that Zimmer had “all-but instructed its design team to copy Stryker’s products,” and had chosen a “high-risk/high-reward strategy of competing immediately and aggressively in the pulsed lavage market,” while “opt[ing] to worry about the potential legal consequences later.” “[T]reble damages [were] appropriate,” the District Court concluded, “[g]iven the one-sidedness of the case and the flagrancy and scope of Zimmer’s infringement.”

The Federal Circuit affirmed the judgment of infringement but vacated the award of treble damages. 782 F. 3d, at 662. Applying *de novo* review, the court concluded that enhanced damages were unavailable because Zimmer had asserted “reasonable defenses” at trial. We granted certiorari in both cases and now vacate and remand.

II A

The pertinent text of §284 provides simply that “the court may increase the damages up to three times the amount found or assessed.” 35 U.S.C. §284. That language contains no explicit limit or condition, and we have emphasized that the “word ‘may’ clearly connotes discretion.” *Martin v. Franklin Capital Corp.*, 546 U.S. 132, 136 (2005) (quoting *Fogerty v. Fantasy, Inc.*, 510 U.S. 517, 533 (1994)).

At the same time, “[d]iscretion is not whim.” *Martin*, 546 U.S., at 139. ... Thus, although there is “no precise rule or formula” for awarding damages under §284, a district court’s “discretion should be exercised in light of the considerations” underlying the grant of that discretion. *Octane Fitness*, 134 S.Ct. 1749, 1756 (quoting *Fogerty*, 510 U.S., at 534).

Awards of enhanced damages under the Patent Act over the past 180 years establish that they are not to be meted out in a typical infringement case, but are instead designed as a “punitive” or “vindictive” sanction for egregious infringement behavior. The sort of conduct warranting enhanced damages has been variously described in our cases as willful, wanton, malicious, bad-faith, deliberate, consciously wrongful, flagrant, or—indeed—characteristic of a pirate. District courts enjoy discretion in deciding whether to award enhanced damages, and in what amount. But through nearly two centuries of discretionary awards and review by appellate tribunals, “the channel of discretion ha[s] narrowed,” Friendly, *Indiscretion About Discretion*, 31

Emory L.J. 747, 772 (1982), so that such damages are generally reserved for egregious cases of culpable behavior.

B

The *Seagate* test reflects, in many respects, a sound recognition that enhanced damages are generally appropriate under §284 only in egregious cases. That test, however, “is unduly rigid, and it impermissibly encumbers the statutory grant of discretion to district courts.” *Octane Fitness*, 134 S.Ct. at 1755 (construing §285 of the Patent Act). In particular, it can have the effect of insulating some of the worst patent infringers from any liability for enhanced damages.

1

The principal problem with *Seagate*’s two-part test is that it requires a finding of objective recklessness in every case before district courts may award enhanced damages. Such a threshold requirement excludes from discretionary punishment many of the most culpable offenders, such as the “wanton and malicious pirate” who intentionally infringes another’s patent—with no doubts about its validity or any notion of a defense—for no purpose other than to steal the patentee’s business. *Seymour*, 16 How. at 488. Under *Seagate*, a district court may not even consider enhanced damages for such a pirate, unless the court first determines that his infringement was “objectively” reckless. In the context of such deliberate wrongdoing, however, it is not clear why an independent showing of objective recklessness—by clear and convincing evidence, no less—should be a prerequisite to enhanced damages.

Our recent decision in *Octane Fitness* arose in a different context but points in the same direction. In that case we considered §285 of the Patent Act, which allows district courts to award attorney’s fees to prevailing parties in “exceptional” cases. 35 U.S.C. §285. The Federal Circuit had adopted a two-part test for determining when a case qualified as exceptional, requiring that the claim asserted be both objectively baseless and brought in subjective bad faith. We rejected that test on the ground that a case presenting “subjective bad faith” alone could “sufficiently set itself apart from mine-run cases to warrant a fee award.” 134 S.Ct. at 1757. So too here. The subjective willfulness of a patent infringer, intentional or knowing, may warrant enhanced damages, without regard to whether his infringement was objectively reckless.

The *Seagate* test aggravates the problem by making dispositive the ability of the infringer to muster a reasonable (even though unsuccessful) defense at the infringement trial. The existence of such a defense insulates the infringer from enhanced damages, even if he did not act on the basis of the defense or was even aware of it. Under that standard, someone who plunders a patent—infringing it without any reason to suppose his conduct is arguably defensible—can nevertheless escape any come-uppance under §284 solely on the strength of his attorney’s ingenuity.

But culpability is generally measured against the knowledge of the actor at the time of the challenged conduct. See generally Restatement (Second) of Torts §8A (1965) (“intent” denotes state of mind in which “the actor desires to cause consequences of his act” or “believes” them to be “substantially certain to result from it”); W. Keeton, D. Dobbs, R. Keeton, & D. Owen, Prosser and Keeton on Law of Torts §34, p. 212 (5th ed. 1984) (describing willful, wanton, and reckless as “look[ing] to the actor’s real or supposed state of mind”); see also *Kolstad v. American Dental Assn.*, 527 U.S. 526, 538 (1999) (“Most often . . . eligibility for punitive awards is characterized in terms of a defendant’s motive or intent”). In *Safeco Ins. Co. of America v. Burr*, 551 U.S. 47 (2007), we stated that a person is reckless if he acts “knowing or having reason to know of facts

which would lead a reasonable man to realize” his actions are unreasonably risky. *Id.*, at 69 (emphasis added and internal quotation marks omitted). The Court found that the defendant had not recklessly violated the Fair Credit Reporting Act because the defendant’s interpretation had “a foundation in the statutory text” and the defendant lacked “the benefit of guidance from the courts of appeals or the Federal Trade Commission” that “might have warned it away from the view it took.” *Id.*, at 69–70. Nothing in *Safeco* suggests that we should look to facts that the defendant neither knew nor had reason to know at the time he acted.*

Section 284 allows district courts to punish the full range of culpable behavior. Yet none of this is to say that enhanced damages must follow a finding of egregious misconduct. As with any exercise of discretion, courts should continue to take into account the particular circumstances of each case in deciding whether to award damages, and in what amount. Section 284 permits district courts to exercise their discretion in a manner free from the inelastic constraints of the *Seagate* test. Consistent with nearly two centuries of enhanced damages under patent law, however, such punishment should generally be reserved for egregious cases typified by willful misconduct.

2

The *Seagate* test is also inconsistent with §284 because it requires clear and convincing evidence to prove recklessness. On this point *Octane Fitness* is again instructive. There too the Federal Circuit had adopted a clear and convincing standard of proof, for awards of attorney’s fees under §285 of the Patent Act. Because that provision supplied no basis for imposing such a heightened standard of proof, we rejected it. We do so here as well. Like §285, §284 “imposes no specific evidentiary burden, much less such a high one.” 134 S.Ct. at 1758. And the fact that Congress expressly erected a higher standard of proof elsewhere in the Patent Act, *see* 35 U.S.C. §273(b), but not in §284, is telling. Furthermore, nothing in historical practice supports a heightened standard. As we explained in *Octane Fitness*, “patent-infringement litigation has always been governed by a preponderance of the evidence standard.” *Id.* Enhanced damages are no exception.

3

Finally, because we eschew any rigid formula for awarding enhanced damages under §284, we likewise reject the Federal Circuit’s tripartite framework for appellate review. In *Highmark Inc. v. Allcare Health Management System, Inc.*, 134 S.Ct. 1744 (2014), we built on our *Octane Fitness* holding to reject a similar multipart standard of review. Because *Octane Fitness* confirmed district court discretion to award attorney fees, we concluded that such decisions should be reviewed for abuse of discretion. 134 S.Ct. at 1748.

The same conclusion follows naturally from our holding here. Section 284 gives district courts discretion in meting out enhanced damages. It “commits the determination” whether enhanced damages are appropriate “to the discretion of the district court” and “that decision is to

* Respondents invoke a footnote in *Safeco* where we explained that in considering whether there had been a knowing or reckless violation of the Fair Credit Reporting Act, a showing of bad faith was not relevant absent a showing of objective recklessness. *See* 551 U.S., at 70, n. 20. But our precedents make clear that “bad-faith infringement” is an independent basis for enhancing patent damages. *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 508 (1964); *see supra*, at 2–5, 9–10; *see also Safeco*, 551 U.S., at 57 (noting that “willfully” is a word of many meanings whose construction is often dependent on the context in which it appears” (some internal quotation marks omitted)).

be reviewed on appeal for abuse of discretion.” *Id.*, at ____.

That standard allows for review of district court decisions informed by “the considerations we have identified.” *Octane Fitness*, 134 S.Ct. at 1756. The appellate review framework adopted by the Federal Circuit reflects a concern that district courts may award enhanced damages too readily, and distort the balance between the protection of patent rights and the interest in technological innovation. Nearly two centuries of exercising discretion in awarding enhanced damages in patent cases, however, has given substance to the notion that there are limits to that discretion. The Federal Circuit should review such exercises of discretion in light of the longstanding considerations we have identified as having guided both Congress and the courts.

III

... [R]espondents’ main argument for retaining the *Seagate* test comes down to a matter of policy. Respondents and their *amici* are concerned that allowing district courts unlimited discretion to award up to treble damages in infringement cases will impede innovation as companies steer well clear of any possible interference with patent rights. They also worry that the ready availability of such damages will embolden “trolls.” Trolls, in the patois of the patent community, are entities that hold patents for the primary purpose of enforcing them against alleged infringers, often exacting outsized licensing fees on threat of litigation.

Respondents are correct that patent law reflects “a careful balance between the need to promote innovation” through patent protection, and the importance of facilitating the “imitation and refinement through imitation” that are “necessary to invention itself and the very lifeblood of a competitive economy.” *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 146 (1989). That balance can indeed be disrupted if enhanced damages are awarded in garden-variety cases. As we have explained, however, they should not be. The seriousness of respondents’ policy concerns cannot justify imposing an artificial construct such as the *Seagate* test on the discretion conferred under §284. . . .

Because both cases before us were decided under the *Seagate* framework, we vacate the judgments of the Federal Circuit and remand the cases for proceedings consistent with this opinion.

It is so ordered

NOTES ON *HALO*

1. Justice Breyer’s Concurrence. Justice Breyer, joined by Justices Alito and Kennedy, concurred in the unanimous *Halo* decision but wrote separately to caution against an over-expansive application of the Court’s opinion in *Halo*. In particular, the concurrence emphasized that enhanced damages should apply only in egregious cases. This excludes cases in which a reasonable assessment was made that a patent was either invalid or not infringed. And, of note, the concurrence emphasized that such an assessment does not require an expensive opinion letter from a patent lawyer, but instead could instead be made through an in-house assessment on the part of a small company, perhaps a startup:

Such [opinion letter] costs can prevent an innovator from getting a small business up and running. At the same time, an owner of a small firm, or a scientist, engineer, or technician working there, might, without being “wanton” or “reckless,” reasonably determine that its

product does not infringe a particular patent, or that that patent is probably invalid.

Halo Elecs., Inc. v. Pulse Elecs., Inc., 136 S. Ct. 1923, 1936 (2016) (Breyer, J., concurring).

2. Immediate Application. Almost immediately, courts began to apply the new *Halo* framework. Thus, in *PPC Broadband, Inc. v. Corning Optical Commc'ns RF, LLC*, 2016 U.S. Dist. LEXIS 78408 (N.D.N.Y. June 16, 2016), the court confirming a jury verdict of willful infringement and noted that, in light of the Supreme Court's decision, willfulness need be proven merely by a preponderance of the evidence rather than clear and convincing evidence. *Id.* at *30 n. 3. The court also cited a host of factor to sustain the willfulness verdict against Corning, including: "First, despite a 2003 ruling of infringement, Corning later reused the same features previously found to infringe. . . . Second, Corning concealed its infringement over many years. . . . Finally, Corning failed to stop its infringement after PPC commenced the lawsuit."

3. Compensation vs. Punishment. On the important distinction between compensation (which the Court emphasizes is the domain of 35 USC § 284) and punishment (the proper domain of §285), *see* Roger D. Blair & Thomas F. Cotter, *Intellectual Property: Economic and Legal Dimensions of Rights and Remedies* 42-66 (2005) (discussing compensation and the role of punitive damages in deterring future infringement).

4. Pre-*Halo* Factors. Under the pre-*Halo* Federal Circuit decision of *Read Corp. v. Portec, Inc.*, 970 F.2d 816, 826–27 (Fed. Cir. 1992), the willfulness of infringement was to be judged based on the "totality of the circumstances," including the following factors:

- (1) [W]hether the infringer deliberately copied the ideas or design of another[.]
- (2) [W]hether the infringer, when he knew of the other's patent protection, investigated the scope of the patent and formed a good-faith belief that it was invalid or that it was not infringed[.]
- (3) [T]he infringer's behavior as a party to the litigation.
- (4) Defendant's size and financial condition.
- (5) Closeness of the case.
- (6) Duration of defendant's misconduct.
- (7) Remedial action by the defendant.
- (8) Defendant's motivation for harm.
- (9) [W]hether defendant attempted to conceal its misconduct.

Id. at 827 (citations omitted). The open-ended nature of this list made willfulness a difficult issue for lawyers to predict with any accuracy, and that unpredictability coupled with the high stakes drove firms to seek the advice of counsel to mitigate the risk of liability for willful infringement. Does *Halo* increase the uncertainties concerning enhanced damages? Does it increase or decrease the need for firms to obtain opinions of counsel?

As many have pointed out, the uncertainties of enhanced damages might also drive firms

to prevent their research employees from reading patents issued to competitors. Does avoiding knowledge of patents foster the goals of the patent system? *See, e.g., Note, The Disclosure Function of the Patent System (Or Lack Thereof)*, 118 HARV. L. REV. 2007 (2005).

5. Willfulness After a Lawsuit is Filed. What if the infringer's only knowledge that there was a patent and it was infringing comes after the filing of a lawsuit? Prior to *Halo*, allegations of post-filing knowledge were thought to be insufficient to support a claim to willful infringement. *See, e.g., Pacing Technologies, LLC v. Garmin Intern., Inc.*, 2013 U.S. Dist. LEXIS 15728, 2013 WL 444642, at *3–*4 (S.D. Cal. Feb. 5, 2013). Does *Halo* change that?

F. PATENT MARKING: STATUTORY NOTICE

Patent Act § 287 reads:

Patentees, and persons making, offering for sale, or selling within the United States any patented article for or under them, or importing any patented article into the United States, may give notice to the public that the same is patented, either by fixing thereon the word "patent" or the abbreviation "pat.", together with the number of the patent, or by fixing thereon the word "patent" or the abbreviation "pat." together with an address of a posting on the Internet, accessible to the public without charge for accessing the address, that associates the patented article with the number of the patent, or when, from the character of the article, this can not be done, by fixing to it, or to the package wherein one or more of them is contained, a label containing a like notice. In the event of failure so to mark, no damages shall be recovered by the patentee in any action for infringement, except on proof that the infringer was notified of the infringement and continued to infringe thereafter, in which event damages may be recovered only for infringement occurring after such notice. Filing of an action for infringement shall constitute such notice.

NOTES ON MARKING

1. The advent of virtual marking. The preceding provision, allowing for posting of patent-related information on the Internet, has been dubbed "virtual marking." This was part of the AIA; it took effect when the AIA was signed in September 2011. The constitutionality of this measure, as well as its retroactive application (per the AIA), have been approved by the courts. *See Rogers v. Tristar Products, Inc.*, 102 U.S.P.Q.2d 1722, 2012 U.S. App. LEXIS 8980 (Fed. Cir. May 2, 2012). One favorable feature of virtual marking is that it increases the damages that manufacturers can collect in patent cases — leveling the playing field, in a sense, with patent owners who do not manufacture a product and therefore are free of the marking requirement. Because the failure to give notice eliminates the chance to collect damages, making notice easier has the effect of enhancing patent owners' prospective damage awards.

2. Marking: Strategic Considerations. In general, if one's product contains a feature that is patented, or that is the subject of a currently pending patent application, it makes sense to so mark the item. This is especially true in the case of the pending patent. To see why, consider the competitor's dilemma when she sees notice of a pending patent. She has actual notice at this

point that infringement might result in damages. Yet she has no idea which feature of the product is the subject of the patent application. Nor does she know what kind of patent is being sought — a process patent on the method of making the product, a method-of-use patent or a full blown product patent on one or more features of it. Combined with the possibility of long pendency times under our patent system, this has the potential to create a good deal of doubt in the mind of the competitor. Of course, competitors can always keep a close eye on patent applications published overseas and, now, in the U.S. too. *See* 35 U.S.C. § 122(b) (2002) (requiring publication of certain U.S. applications filed after November 29, 2000). Yet the U.S. pre-patent publication requirement is currently subject to many limitations, *see id.* § 122(b)(2), and so many U.S. patents may remain secret until the patent issues.

Another strategic concern is that sometimes notice is *not* desirable. Some practitioners advise their clients to suppress notice in certain cases because they do not consider the benefit of damages worth the cost of notifying competitor's of the patent. Sometimes this is used to plan a "sneak attack" on competitors; once they have invested in plant and equipment, an action is brought seeking an injunction, which after all is the primary threat in many cases, and which of course is available even when no notice is given. Second, there are times when a patent may be relatively easy to invent around. In such cases, it is thought prudent not to direct one's competitors to the specifics of one's invention. The less they know, and the harder it is for them to find out, the better. One would think that a hard-headed competitor would always be on the lookout for patents that will reveal details of the competition's approach; but it is thought by at least some practitioners that this is not always the case.

3. The AIA and the End of False Marking Qui Tam Suits. A spate of lawsuits under the qui tam provision of the false marking provision of the 1952 Act was put to an end with the passage of the AIA in 2011. *See* Leahy-Smith America Invents Act of 2011 ("AIA"), Pub. L. No. 112-29, 125 Stat. 284 (2011) ("AIA"), § 16 ("Marking").

Chapter 10: The Legal Process of the Patent System

Chap. 10.A.4. On pages, 1005-1012, omit the *Holmes Group v. Vornado* case and notes 1-3 after the case. In place of note 4, include the following:

The Overruling of *Holmes Group*. In *Holmes Group v. Vornado*, 535 U.S. 826 (2002), the Supreme Court held that the Federal Circuit's patent appellate jurisdiction was limited to those cases "arising under" the patent statutes—meaning the appellate jurisdiction extended only to those cases in which patent issues were raised by the plaintiff's properly pleaded complaint and not to cases in which patent issues were raised by way of counterclaim. In § 19 of the America Invents Act, Congress changed the law on that point and gave the Federal Circuit a more complete appellate jurisdiction over cases raising patent issues. The new statute provides that the Federal Circuit has exclusive appellate jurisdiction over any "any civil action arising under, *or in any civil action in which a party has asserted a compulsory counterclaim arising under*, any Act of Congress relating to patents or plant variety protection." § 19(b), 125 Stat. at 332.

On page 1013, add the following paragraph to the end of note 6 on "Splitting the Federal Circuit's Jurisdiction":

Despite the AIA's extension of the Federal Circuit's exclusive jurisdiction, the move to split that court's appellate jurisdiction over patent case received a big boost in 2013 when Diane Wood, Chief Judge of the Seventh Circuit (and a former law professor) delivered a speech entitled "Is It Time to Abolish the Federal Circuit's Exclusive Jurisdiction in Patent Cases?" For links to a video of the speech and a draft of the published version, see <http://studentorgs.kentlaw.iit.edu/ckjip/chief-judge-diane-woods-keynote-address-at-scjpr-2013-is-it-time-to-abolish-the-federal-circuits-exclusive-jurisdiction-in-patent-cases/>. Chief Judge Wood cited the 2007 article by Nard and Duffy, which also proposed abolishing the Federal Circuit's exclusive jurisdiction, but Chief Judge Wood appeared to propose even further decentralization of appeals. While the 2007 article by Nard and Duffy argued for authorizing a small number of other appellate courts with patent jurisdiction, Chief Judge Wood believe all circuits should have patent jurisdiction, with the Federal Circuit taking jurisdiction over cases only if the appellant chose that circuit as an alternative over the regional circuit. Note that under Chief Judge Wood's proposal, the existence of the Federal Circuit would not centralize appeals at all; it would provide merely a 13th appellate court in which patent appeals could be heard.

The debate over the Federal Circuit's jurisdiction has even received press coverage. See "Critics Fault Court's Grip on Appeals for Patents: Calls to Loosen Federal Circuit's Hold Grows Amid Complaints Over Rulings," Wall Street Journal (July 6, 2014) (available at <http://online.wsj.com/articles/critics-fault-courts-grip-on-appeals-for-patents-1404688219>). It remains unclear whether Congress has any interest in changing the court's jurisdiction.

Chap. 10.C: At the end of the discussion of administrative proceedings on page 1056, add the following new case:

Cuozzo Speed Techs., LLC v. Lee
136 S. Ct. 2131 (2016)

JUSTICE BREYER delivered the opinion of the Court [which was unanimous except as to part II].

The Leahy-Smith America Invents Act creates a process called “inter partes review.” That review process allows a third party to ask the U.S. Patent and Trademark Office to reexamine the claims in an already-issued patent and to cancel any claim that the agency finds to be unpatentable in light of prior art. See § 102 (requiring “novel[ty]”); § 103 (disqualifying claims that are “obvious”).

We consider two provisions of the Act. The first says:

“No Appeal.—The determination by the Director [of the Patent Office] whether to institute an inter partes review under this section shall be final and non-appealable.” § 314(d).

Does this provision bar a court from considering whether the Patent Office wrongly “determin[ed] . . . to institute an inter partes review,” *ibid.*, when it did so on grounds not specifically mentioned in a third party’s review request?

The second provision grants the Patent Office the authority to issue

“regulations . . . establishing and governing inter partes review under this chapter.” § 316(a)(4).

Does this provision authorize the Patent Office to issue a regulation stating that the agency, in inter partes review, “shall [construe a patent claim according to] its broadest reasonable construction in light of the specification of the patent in which it appears”? 37 C.F.R. § 42.100(b) (2015).

We conclude that the first provision, though it may not bar consideration of a constitutional question, for example, does bar judicial review of the kind of mine-run claim at issue here, involving the Patent Office’s decision to institute inter partes review. We also conclude that the second provision authorizes the Patent Office to issue the regulation before us.

I

[After describing the PTO’s examination process, the Court continued:] For several decades, the Patent Office has also possessed the authority to reexamine—and perhaps cancel—a patent claim that it had previously allowed. In 1980, for example, Congress enacted a statute providing for “ex parte reexamination.” Act to Amend the Patent and Trademark Laws, 35 U.S.C. § 301 et seq. That statute (which remains in effect) gives “[a]ny person at any time” the right to “file a request for reexamination” on the basis of certain prior art “bearing on the patentability” of an already-issued patent. §§ 301(a)(1), 302. If the Patent Office concludes that the cited prior art raises “a substantial new question of patentability,” the agency can reexamine the patent. § 303(a). And that reexamination can lead the Patent Office to cancel the patent (or some of its claims). Alternatively, the Director of the Patent Office can, on her “own initiative,” trigger such

a proceeding. *Ibid.* And, as with examination, the patent holder can seek judicial review of an adverse final decision. § 306.

In 1999 and 2002, Congress enacted statutes that established another, similar procedure, known as “inter partes reexamination.” Those statutes granted third parties greater opportunities to participate in the Patent Office’s reexamination proceedings as well as in any appeal of a Patent Office decision. See, e.g., American Inventors Protection Act of 1999, § 297 et seq. (2006 ed.) (superseded).

In 2011, Congress enacted the statute before us. That statute modifies “inter partes reexamination,” which it now calls “inter partes review.” See H. R. Rep. No. 112-98, pt. 1, pp. 46-47 (2011) (H. R. Rep.). ... The new statute provides a challenger with broader participation rights. It creates within the Patent Office a Patent Trial and Appeal Board (Board) composed of administrative patent judges, who are patent lawyers and former patent examiners, among others. § 6. That Board conducts the proceedings, reaches a conclusion, and sets forth its reasons. See *ibid.*

The statute sets forth time limits for completing this review. § 316(a)(11). It grants the Patent Office the authority to issue rules. § 316(a)(4). Like its predecessors, the statute authorizes judicial review of a “final written decision” canceling a patent claim. § 319. And, the statute says that the agency’s initial decision “whether to institute an inter partes review” is “final and nonappealable.” § 314(d).

[In 2002, Giuseppe A. Cuozzo applied for a patent for a speedometer that uses GPS technology to indicate when the vehicle exceeds the legal speed limit on a particular road. The PTO granted the patent in 2004 (U.S. Patent No. 6,778,074). In 2012, Garmin sought inter partes review of patent of the Cuozzo Patent’s 20 claims.

With respect to claim 17 of Cuozzo’s patent, Garmin argued that the claim was obvious in light of three prior art references, known as the Aumayer, Evans, and Wendt patents. Garmin did not assert that particular trio of references as a ground for invalidating claims 10 and 14 of the patent. Nevertheless, the PTO Board decided to review not only claim 17, but also claims 10 and 14, on the basis of that trio of patent references. Even though the inter partes review statute requires petitions to set forth the grounds for challenge “with particularity,” § 312(a)(3), the Board reasoned that Garmin had “implicitly” challenged claims 10 and 14 on the basis of the three references because “claim 17 depends on claim 14 which depends on claim 10.”

The Board held that claims 10, 14, and 17 of the Cuozzo Patent were obvious in light of the three prior art patent references. In appealing to the Federal Circuit, Cuozzo argued, *inter alia*, (i) that the Board decision to institute review against claims 10 and 14 was legally wrong; and (ii) that the Board erred in adopting “the broadest reasonable interpretation” of the challenged patent claims. A divided panel rejected those arguments, and Cuozzo’s petition for en banc rehearing was rejected by a vote of 6 to 5. The Supreme Court granted Cuozzo’s petition for certiorari on both issues.]

II

Like the Court of Appeals, we believe that Cuozzo’s contention that the Patent Office unlawfully initiated its agency review is not appealable. For one thing, that is what § 314(d) says. It states that the “determination by the [Patent Office] whether to institute an inter partes review under this section shall be final and nonappealable.” (Emphasis added.)

For another, the legal dispute at issue is an ordinary dispute about the application of certain relevant patent statutes concerning the Patent Office's decision to institute inter partes review. *Cuozzo* points to a related statutory section, § 312, which says that petitions must be pleaded "with particularity." Those words, in its view, mean that the petition should have specifically said that claims 10 and 14 are also obvious in light of this same prior art. Garmin's petition, the Government replies, need not have mentioned claims 10 and 14 separately, for claims 10, 14, and 17 are all logically linked; the claims "rise and fall together," and a petition need not simply repeat the same argument expressly when it is so obviously implied. See 793 F. 3d, at 1281. In our view, the "No Appeal" provision's language must, at the least, forbid an appeal that attacks a "determination . . . whether to institute" review by raising this kind of legal question and little more. § 314(d).

Moreover, a contrary holding would undercut one important congressional objective, namely, giving the Patent Office significant power to revisit and revise earlier patent grants. See H. R. Rep., at 45, 48 (explaining that the statute seeks to "improve patent quality and restore confidence in the presumption of validity that comes with issued patents"); 157 Cong. Rec. 9778 (2011) (remarks of Rep. Goodlatte) (noting that inter partes review "screen[s] out bad patents while bolstering valid ones"). We doubt that Congress would have granted the Patent Office this authority, including, for example, the ability to continue proceedings even after the original petitioner settles and drops out, § 317(a), if it had thought that the agency's final decision could be unwound under some minor statutory technicality related to its preliminary decision to institute inter partes review.

Further, the existence of similar provisions in this, and related, patent statutes reinforces our conclusion. See § 319 (limiting appellate review to the "final written decision"); § 312(c) (2006 ed.) (repealed) (the "determination" that a petition for inter partes reexamination "raise[s]" a "substantial new question of patentability" is "final and non-appealable"); see also § 303(c) (2012 ed.); *In re Hiniker Co.*, 150 F. 3d 1362, 1367 (CA Fed. 1998) ("Section 303 . . . is directed toward the [Patent Office's] authority to institute a reexamination, and there is no provision granting us direct review of that decision"). . . .

We recognize the "strong presumption" in favor of judicial review that we apply when we interpret statutes, including statutes that may limit or preclude review. *Mach Mining, LLC v. EEOC*, 575 U.S. ___, ___ (2015) (internal quotation marks omitted). . . . [I]n light of § 314(d)'s own text and the presumption favoring review, we emphasize that our interpretation applies where the grounds for attacking the decision to institute inter partes review consist of questions that are closely tied to the application and interpretation of statutes related to the Patent Office's decision to initiate inter partes review. See § 314(d) (barring appeals of "determinations . . . to initiate an inter partes review under this section" (emphasis added)). This means that we need not, and do not, decide the precise effect of § 314(d) on appeals that implicate constitutional questions, that depend on other less closely related statutes, or that present other questions of interpretation that reach, in terms of scope and impact, well beyond "this section." Thus, contrary to the dissent's suggestion, we do not categorically preclude review of a final decision where a petition fails to give "sufficient notice" such that there is a due process problem with the entire proceeding, nor does our interpretation enable the agency to act outside its statutory limits by, for example, canceling a patent claim for "indefiniteness under § 112" in inter partes review. *Post*, at 10-13. Such "shenanigans" may be properly reviewable in the context of § 319 and under the Administrative Procedure Act, which enables reviewing courts to "set aside agency action" that is "contrary to constitutional right," "in excess of statutory jurisdiction," or "arbitrary [and] capricious." 5 U.S.C. §§ 706(2)(A)-(D).

By contrast, where a patent holder merely challenges the Patent Office’s “determin[ation] that the information presented in the petition . . . shows that there is a reasonable likelihood” of success “with respect to at least 1 of the claims challenged,” § 314(a), or where a patent holder grounds its claim in a statute closely related to that decision to institute inter partes review, § 314(d) bars judicial review. In this case, Cuozzo’s claim that Garmin’s petition was not pleaded “with particularity” under § 312 is little more than a challenge to the Patent Office’s conclusion, under § 314(a), that the “information presented in the petition” warranted review. We therefore conclude that § 314(d) bars Cuozzo’s efforts to attack the Patent Office’s determination to institute inter partes review in this case.

III

Cuozzo further argues that the Patent Office lacked the legal authority to issue its regulation requiring the agency, when conducting an inter partes review, to give a patent claim “its broadest reasonable construction in light of the specification of the patent in which it appears.” 37 C.F.R. § 42.100(b). Instead, Cuozzo contends that the Patent Office should, like the courts, give claims their “ordinary meaning . . . as understood by a person of skill in the art.” Phillips, 415 F. 3d, at 1314.

The statute, however, contains a provision that grants the Patent Office authority to issue “regulations . . . establishing and governing inter partes review under this chapter.” 35 U.S.C. § 316(a)(4). The Court of Appeals held that this statute gives the Patent Office the legal authority to issue its broadest reasonable construction regulation. We agree.

A

We interpret Congress’ grant of rulemaking authority in light of our decision in *Chevron U.S.A. Inc. v. Natural Resources Defense Council, Inc.*, 467 U. S. 837 (1984)]. Where a statute is clear, the agency must follow the statute. *Id.*, at 842-843. But where a statute leaves a “gap” or is “ambigu[ous],” we typically interpret it as granting the agency leeway to enact rules that are reasonable in light of the text, nature, and purpose of the statute. [*United States v. Mead Corp.*, 533 U. S. 218, 229 (2001)]; *Chevron U.S.A. Inc.*, *supra*, at 843. The statute contains such a gap: No statutory provision unambiguously directs the agency to use one standard or the other. And the statute “express[ly] . . . authoriz[es] [the Patent Office] to engage in the process of rulemaking” to address that gap. *Mead Corp.*, *supra*, at 229. Indeed, the statute allows the Patent Office to issue rules “governing inter partes review,” § 316(a)(4), and the broadest reasonable construction regulation is a rule that governs inter partes review.

Both the dissenting judges in the Court of Appeals and Cuozzo believe that other ordinary tools of statutory interpretation, *INS v. Cardoza-Fonseca*, 480 U.S. 421, 432 and n. 12 (1987), lead to a different conclusion. The dissenters, for example, point to cases in which the Circuit interpreted a grant of rulemaking authority in a different statute, § 2(b)(2)(A), as limited to procedural rules. *See, e.g., Cooper Technologies Co. v. Dudas*, 536 F. 3d 1330, 1335 (CA Fed. 2008). These cases, however, as we just said, interpret a different statute. That statute does not clearly contain the Circuit’s claimed limitation, nor is its language the same as that of § 316(a)(4). Section 2(b)(2)(A) grants the Patent Office authority to issue “regulations” “which . . . shall govern . . . proceedings in the Office” (emphasis added), but the statute before us, § 316(a)(4), does not refer to “proceedings”—it refers more broadly to regulations “establishing and governing inter partes review.” The Circuit’s prior interpretation of § 2(b)(2)(A) cannot magically render unambiguous the different language in the different statute before us.

Cuozzo and its supporting amici believe we will reach a different conclusion if we carefully examine the purpose of inter partes review. That purpose, in their view, is to modify the previous reexamination procedures and to replace them with a “trial, adjudicatory in nature.” Brief for Petitioner 26 (quoting *Google Inc. v. Jongerius Panoramic Techs., LLC*, IPR 2013-00191, Paper No. 50, p. 4 (PTAB, Feb. 13, 2014))). They point out that, under the statute, an opposing party can trigger inter partes review. Parties can engage in “discovery of relevant evidence,” including “deposition[s], . . . affidavits or declarations” as well as anything “otherwise necessary in the interest of justice.” § 316(a)(5). Parties may present “factual evidence and expert opinions” to support their arguments. § 316(a)(8). The challenger bears the burden of proving unpatentability. § 316(e). And, after oral argument before a panel of three of the Board’s administrative patent judges, it issues a final written decision. §§ 6, 316(a)(10), 318. Perhaps most importantly, a decision to cancel a patent normally has the same effect as a district court’s determination of a patent’s invalidity.

In light of these adjudicatory characteristics, which make these agency proceedings similar to court proceedings, Congress, in Cuozzo’s view, must have designed inter partes review as a “surrogate for court proceedings.” Brief for Petitioner 28. Cuozzo points to various sources of legislative history in support of its argument. [Citations omitted.] And, if Congress intended to create a “surrogate” for court proceedings, why would Congress not also have intended the agency to use the claim construction standard that district courts apply (namely, the ordinary meaning standard), rather than the claim construction standard that patent examiners apply (namely, the broadest reasonable construction standard)?

The problem with Cuozzo’s argument, however, is that, in other significant respects, inter partes review is less like a judicial proceeding and more like a specialized agency proceeding. Parties that initiate the proceeding need not have a concrete stake in the outcome; indeed, they may lack constitutional standing. See § 311(a); cf. *Consumer Watchdog v. Wisconsin Alumni Research Foundation*, 753 F. 3d 1258, 1261-1262 (CA Fed. 2014). As explained above, challengers need not remain in the proceeding; rather, the Patent Office may continue to conduct an inter partes review even after the adverse party has settled. § 317(a). Moreover, as is the case here, the Patent Office may intervene in a later judicial proceeding to defend its decision—even if the private challengers drop out. And the burden of proof in inter partes review is different than in the district courts: In inter partes review, the challenger (or the Patent Office) must establish unpatentability “by a preponderance of the evidence”; in district court, a challenger must prove invalidity by “clear and convincing evidence.” Compare § 316(e) with *Microsoft Corp. v. i4i Ltd. P’ship*, 564 U.S. 91, 95 (2011).

Most importantly, these features, as well as inter partes review’s predecessors, indicate that the purpose of the proceeding is not quite the same as the purpose of district court litigation. The proceeding involves what used to be called a reexamination (and, as noted above, a cousin of inter partes review, ex parte reexamination, 35 U.S.C. § 302 et seq., still bears that name). The name and accompanying procedures suggest that the proceeding offers a second look at an earlier administrative grant of a patent. Although Congress changed the name from “reexamination” to “review,” nothing convinces us that, in doing so, Congress wanted to change its basic purposes, namely, to reexamine an earlier agency decision. Thus, in addition to helping resolve concrete patent-related disputes among parties, inter partes review helps protect the public’s “paramount interest in seeing that patent monopolies . . . are kept within their legitimate scope.” *Precision Instrument Mfg. Co. v. Automotive Maintenance Machinery Co.*, 324 U.S. 806, 816 (1945); see H. R. Rep., at 39-40 (Inter partes review is an “efficient system for challenging patents that should not have issued”).

Finally, neither the statutory language, its purpose, or its history suggest that Congress considered what standard the agency should apply when reviewing a patent claim in inter partes review. Cuozzo contends that § 301(d), explaining that the Patent Office should “determine the proper meaning of a patent claim,” reinforces its conclusion that the ordinary meaning standard should apply. But viewed against a background of language and practices indicating that Congress designed a hybrid proceeding, § 301(d)’s reference to the “proper meaning” of a claim is ambiguous. It leaves open the question of which claim construction standard is “proper.”

The upshot is, whether we look at statutory language alone, or that language in context of the statute’s purpose, we find an express delegation of rulemaking authority, a “gap” that rules might fill, and “ambiguity” in respect to the boundaries of that gap. We consequently turn to the question whether the Patent Office’s regulation is a reasonable exercise of its rulemaking authority.

B

We conclude that the regulation represents a reasonable exercise of the rulemaking authority that Congress delegated to the Patent Office. For one thing, construing a patent claim according to its broadest reasonable construction helps to protect the public. A reasonable, yet unlawfully broad claim might discourage the use of the invention by a member of the public. Because an examiner’s (or re-examiner’s) use of the broadest reasonable construction standard increases the possibility that the examiner will find the claim too broad (and deny it), use of that standard encourages the applicant to draft narrowly. This helps ensure precision while avoiding overly broad claims, and thereby helps prevent a patent from tying up too much knowledge, while helping members of the public draw useful information from the disclosed invention and better understand the lawful limits of the claim. See § 112(a); *Nautilus, Inc. v. Biosig Instruments, Inc.*, 572 U.S. ___, ___ (2014); see also *In re Yamamoto*, 740 F. 2d 1569, 1571 (CA Fed. 1984).

For another, past practice supports the Patent Office’s regulation. See 77 Fed. Reg. 48697 (2012). The Patent Office has used this standard for more than 100 years. 793 F. 3d, at 1276. It has applied that standard in proceedings, which, as here, resemble district court litigation. See *Bamberger v. Cheruvu*, 55 USPQ 2d 1523, 1527 (BPAI 1998) (broadest reasonable construction standard applies in interference proceedings); Brief for Generic Pharmaceutical Association et al. as Amici Curiae 7-16 (describing similarities between interference proceedings and adjudicatory aspects of inter partes review); see also *In re Yamamoto*, supra, at 1571 (broadest reasonable construction standard applies in reexamination). It also applies that standard in proceedings that may be consolidated with a concurrent inter partes review. See 77 Fed. Reg. 48697-48698.

Cuozzo makes two arguments in response. First, Cuozzo says that there is a critical difference between the Patent Office’s initial examination of an application to determine if a patent should issue, and this proceeding, in which the agency reviews an already-issued patent. In an initial examination of an application for a patent the examiner gives the claim its broadest reasonable construction. But if the patent examiner rejects the claim, then, as described above, Part I-A, supra, the applicant has a right to amend and resubmit the claim. And the examiner and applicant may repeat this process at least once more. This system—broad construction with a chance to amend—both protects the public from overly broad claims and gives the applicant a fair chance to draft a precise claim that will qualify for patent protection. In inter partes review, however, the broadest reasonable construction standard may help protect certain public interests, but there is no absolute right to amend any challenged patent claims. This, Cuozzo says, is unfair to the patent holder.

The process however, is not as unfair as Cuozzo suggests. The patent holder may, at least once in the process, make a motion to do just what he would do in the examination process, namely, amend or narrow the claim. § 316(d) (2012 ed.). This opportunity to amend, together with the fact that the original application process may have presented several additional opportunities to amend the patent, means that use of the broadest reasonable construction standard is, as a general matter, not unfair to the patent holder in any obvious way.

Cuozzo adds that, as of June 30, 2015, only 5 out of 86 motions to amend have been granted. Brief for Petitioner 30; see Tr. of Oral Arg. 30 (noting that a sixth motion had been granted by the time of oral argument in this case). But these numbers may reflect the fact that no amendment could save the inventions at issue, i.e., that the patent should have never issued at all.

To the extent Cuozzo’s statistical argument takes aim at the manner in which the Patent Office has exercised its authority, that question is not before us. Indeed, in this particular case, the agency determined that Cuozzo’s proposed amendment “enlarge[d],” rather than narrowed, the challenged claims. App. to Pet. for Cert. 165a-166a; see § 316(d)(3). Cuozzo does not contend that the decision not to allow its amendment is “arbitrary” or “capricious,” or “otherwise [un]lawful.” 5 U.S.C. § 706(2)(a).

Second, Cuozzo says that the use of the broadest reasonable construction standard in inter partes review, together with use of an ordinary meaning standard in district court, may produce inconsistent results and cause added confusion. A district court may find a patent claim to be valid, and the agency may later cancel that claim in its own review. We recognize that that is so. This possibility, however, has long been present in our patent system, which provides different tracks—one in the Patent Office and one in the courts—for the review and adjudication of patent claims. As we have explained above, inter partes review imposes a different burden of proof on the challenger. These different evidentiary burdens mean that the possibility of inconsistent results is inherent to Congress’ regulatory design.

Moreover, the Patent Office uses the broadest reasonable construction standard in other proceedings, including interference proceedings (described above), which may implicate patents that are later reviewed in district court. The statute gives the Patent Office the power to consolidate these other proceedings with inter partes review. To try to create uniformity of standards would consequently prove difficult. And we cannot find unreasonable the Patent Office’s decision to prefer a degree of inconsistency in the standards used between the courts and the agency, rather than among agency proceedings. See 77 Fed. Reg. 48697-48698.

Finally, Cuozzo and its supporting amici offer various policy arguments in favor of the ordinary meaning standard. The Patent Office is legally free to accept or reject such policy arguments on the basis of its own reasoned analysis. Having concluded that the Patent Office’s regulation, selecting the broadest reasonable construction standard, is reasonable in light of the rationales described above, we do not decide whether there is a better alternative as a policy matter. That is a question that Congress left to the particular expertise of the Patent Office.

* * *

For the reasons set forth above, we affirm the judgment of the Court of Appeals for the Federal Circuit.

It is so ordered.

JUSTICE THOMAS, concurring.

The Court invokes *Chevron U.S.A. Inc. v. NRDC*, 467 U.S. 837 (1984), ... [b]ut today’s decision does not rest on *Chevron*’s fiction that ambiguity in a statutory term is best construed as an implicit delegation of power to an administrative agency to determine the bounds of the law. In an appropriate case, this Court should reconsider that fiction of *Chevron* and its progeny. ...

JUSTICE ALITO, with whom JUSTICE SOTOMAYOR joins, concurring in part and dissenting in part.

Congress has given the Patent and Trademark Office considerable authority to review and cancel issued patent claims. At the same time, Congress has cabined that power by imposing significant conditions on the Patent Office’s institution of patent review proceedings. Unlike the Court, I do not think that Congress intended to shield the Patent Office’s compliance—or noncompliance—with these limits from all judicial scrutiny. Rather, consistent with the strong presumption favoring judicial review, Congress required only that judicial review, including of issues bearing on the institution of patent review proceedings, be channeled through an appeal from the agency’s final decision. I respectfully dissent from the Court’s contrary holding.¹ ...

We have long recognized that “Congress rarely intends to prevent courts from enforcing its directives to federal agencies. For that reason, this Court applies a ‘strong presumption’ favoring judicial review of administrative action.” *Mach Mining, LLC v. EEOC*, 575 U.S. ___, ___ (2015). While the “presumption is rebuttable,” “the agency bears a ‘heavy burden’ in attempting to show that Congress ‘prohibit[ed] all judicial review’ of the agency’s compliance with a legislative mandate.” *Mach Mining*, supra, at ___-___. If a provision can reasonably be read to permit judicial review, it should be. ...

[T]he Court [asserts] that allowing judicial review “would undercut one important congressional objective, namely, giving the Patent Office significant power to revisit and revise earlier patent grants.” *Ante*, at 8. I am not sure that the Court appreciates how remarkable this assertion is. It would give us cause to do away with judicial review whenever we think that review makes it harder for an agency to carry out important work. In any event, the majority’s logic is flawed. Judicial review enforces the limits that Congress has imposed on the agency’s power. It thus serves to buttress, not “undercut,” Congress’s objectives. By asserting otherwise, the majority loses sight of the principle that “no legislation pursues its purposes at all costs.” *Rodriguez v. United States*, 480 U.S. 522, 525-526 (1987) (per curiam). “Every statute purposes, not only to achieve certain ends, but also to achieve them by particular means—and there is often a considerable legislative battle over what those means ought to be. The withholding of agency authority is as significant as the granting of it, and we have no right to play favorites between the two.” *Director, Office of Workers’ Compensation Programs v. Newport News Shipbuilding & Dry Dock Co.*, 514 U.S. 122, 136 (1995). The inter partes review statute is no exception. It empowers the Patent Office to clean up bad patents, but it expressly forbids the Patent Office to institute inter partes review—or even consider petitions for inter partes review—unless certain conditions are satisfied. Nothing in the statute suggests that Congress wanted to improve patent quality at the cost of fidelity to the law. ...

Section 312(a)(3)’s particularity requirement is designed, at least in part, to ensure that a patent owner has sufficient notice of the challenge against which it must defend. Once inter partes

¹ I agree with the Court that the Patent Office permissibly applies a “broadest reasonable construction” standard to construe patent claims in inter partes review, and I therefore join Parts I and III of its opinion.

review is instituted, the patent owner's response—its opening brief, essentially—is filed as an opposition to the challenger's petition. See § 316(a)(8); 37 C.F.R. § 42.120. Thus, if a petition fails to state its challenge with particularity—or if the Patent Office institutes review on claims or grounds not raised in the petition—the patent owner is forced to shoot into the dark. The potential for unfairness is obvious.

Other problems arise if the Patent Office fails to enforce the prohibitions against instituting inter partes review at the behest of challengers that have already sued to invalidate the patent or that were sued for infringement more than a year before seeking inter partes review. 35 U.S.C. §§ 315(a)(1), (b). Allowing such a challenge exposes the patent owner to the burden of multiplicative proceedings—including discovery in both forums, see § 316(a)(5)—while permitting the challenger to exploit inter partes review's lower standard of proof and more favorable claim construction standard. Congress understandably thought that the Patent Office's power should not be wielded in this way. Yet, according to the Court, Congress made courts powerless to correct such abuses.

Even more striking are the consequences that today's decision portends for the AIA's other patent review mechanisms, post-grant review and CBM [Covered Business Method] review which are subject to a “no appeal” provision virtually identical to § 314(d).^{*} Post-grant review and CBM review allow for much broader review than inter partes review. While inter partes review is limited to assessing patentability under § 102 and § 103, in post-grant review and CBM review, patent claims can also be scrutinized (and canceled) on any invalidity ground that may be raised as a defense to infringement, including such grounds as ineligible subject matter under § 101, indefiniteness under § 112, and improper enlargement of reissued claims under § 251. But this broader review comes with its own strict limits. A petition for post-grant review must be filed within nine months after a patent is granted. § 321(c). And while CBM review is not subject to this time limit, Congress imposed a subject-matter restriction: The Patent Office “may institute a [CBM review] proceeding only for a patent that is a covered business method patent,” which Congress defined to cover certain patents with claims relating to “a financial product or service.” AIA §§ 18(a)(1)(E), (d)(1), at 1442; see § 18(a)(1)(A), *ibid.*

Congress thus crafted a three-tiered framework for Patent Office review of issued patents: broad post-grant review in a patent's infancy, followed by narrower inter partes review thereafter, with a limited exception for broad review of older covered business method patents. Today's decision threatens to undermine that carefully designed scheme. Suppose that the Patent Office instituted post-grant review on a petition filed 12 months (or even 12 years) after a patent was issued, and then invalidated a patent claim as indefinite under § 112—a ground available in post-grant review but not in inter partes review. This would grossly exceed the Patent Office's authority and would be manifestly prejudicial to the patent owner. Can Congress really have intended to shield such shenanigans from judicial scrutiny? The Court answers with a non sequitur: Of course the Patent Office cannot cancel a patent under § 112 “in inter partes review.” Ante, at 11. The Court seems to think that we could overturn the Patent Office's decision to institute “post-grant review” based on an untimely petition and declare that the agency has really instituted only “inter partes review.” But how is that possible under today's opinion? After all, the petition's timeliness, no less than the particularity of its allegations, is “closely tied to the application and interpretation of statutes related to the Patent Office's decision to initiate . . . review,” and the Court says that such questions are unreviewable. *Ibid.*; see § 321(c); § 312(a)(3).

^{*} [Eds. note: In a portion of his opinion not reproduced here, Justice Alito had noted that the AIA “created three new mechanisms for Patent Office review of issued patent claims—inter partes review, post-grant review, and covered business method patent review (CBM review).”]

To take things a step further, suppose that the Patent Office purported to forgive the post-grant review petition's tardiness by declaring the challenged patent a "covered business method patent," even though the patent has nothing to do with financial products or services (it claims, say, a new kind of tempered glass). Again, this involves the application of statutes related to the Patent Office's institution decision. See AIA § 18(a)(1)(E), at 1442 (Patent Office "may institute a [CBM review] proceeding only for a patent that is a covered business method patent"). So is this specious determination immune from judicial scrutiny under the Court's reasoning?

If judicial review of these issues is unavailable, then nothing would prevent the Patent Office from effectively collapsing Congress's three-tiered review structure and subjecting all patents to broad post-grant review at all times. Congress cannot have intended that.

I take the Court at its word that today's opinion will not permit the Patent Office "to act outside its statutory limits" in these ways. But how to get there from the Court's reasoning—and how to determine which "statutory limits" we should enforce and which we should not—remains a mystery. I would avoid the suspense and hold that 35 U.S.C. § 314(d) does not bar judicial review of the Patent Office's compliance with any of the limits Congress imposed on the institution of patent review proceedings. That includes the statutory limit, § 312(a)(3), that *Cuozzo* alleges was violated here. ...

Notes on *Cuozzo* and the AIA's New Administrative Processes

1. A Vast Increase in Administrative Power. While the AIA's most prominent change to the U.S. patent system is the adoption of the a "first-to-file" system of priority, the AIA's expansion of the PTO's administrative powers might very well have more importance in the day-to-day operation of the system. As Justice Breyer's opinion in *Cuozzo* makes clear, the PTO's administrative powers had been steadily increasing since 1980 when Congress granted the agency new power to reexamine issued patents. In a series of statutes culminating in the AIA, Congress repeatedly expanded the agency's power and, as *Cuozzo* demonstrates, even gave the agency a degree of insulation from judicial review that is unusually even in modern administrative law.

The enactment of the AIA gave the PTO three powerful new authorities to review the validity of issued patents: post-grant review (PGR), inter partes review (IPR) and covered business method review (CBM). As Justice Alito's dissent teaches, the three post-issuance administrative procedures have different attributes, but collectively the three have made administrative review at least as important as the traditional judicial mechanisms for challenging the validity of issued patents (declaratory judgment actions and invalidity defenses to infringement). In sum, the AIA is a giant step toward an approach seen in some foreign countries—with patent examination and validity challenges handled administratively and only infringement issues litigated in the courts.

2. IPRs as Low-Cost Substitute for Judicial Processes. The basic rationale for IPRs is that they are a low-cost substitute for the high expense of district court litigation. IPRs are a cheaper way to invalidate patents, which makes it more likely that invalid patents will be weeded out. See, e.g., Joseph Farrell and Robert P. Merges, *Incentives to Challenge and Defend Patents: Why Litigation Won't Reliably Fix Patent Office Errors and Why Administrative Patent Review Might Help*, 19 Berkeley Tech. L.J. 9430 (2004). Early indications are that this is exactly what is happening with IPR proceedings. See Saurabh Vishnubhakat, Arti K. Rai & Jay P. Kesan, *Strategic Decision Making in Dual PTAB and District Court Proceedings*, 31 Berkeley Tech. L.J. 45 (2016) (finding that 70% of instituted IPRs are brought by parties also involved in district

court litigation, and showing that IPRs are working as an effective substitute for district court litigation to invalidate patents). Does the Court's opinion further this policy? Note that even under the dissent's approach, patentees could not obtain judicial review of the Board's institution decision until the IPR proceedings were complete.

3. High Invalidity Rates. Invalidity rates in PTAB proceedings are a matter of some concern to patent lawyers. The early indications from 2014 were that many patents were being invalidated. See Brian J. Love & Shawn Ambwani, *Inter Partes Review: An Early Look at the Numbers*, 81 Univ. of Chi. L. Rev. Dialogue 93 (2014) (reporting that the PTAB invalidated all claims in 77.5% of the first 160 petitions instituted). The number of petitions has since 2014 risen significantly, with over 3000 petitions for IPRs filed as of June 30, 2016. See "AIA Trial Statistics," <http://www.uspto.gov/patents-application-process/appealing-patent-decisions/statistics/aia-trial-statistics>, report available at <http://www.uspto.gov/sites/default/files/documents/2016-6-30%20PTAB.pdf>, USPTO.gov website. Much depends, however, on how the question of invalidity is framed. For example, of 22,098 total patent claims for which PTAB proceedings were instituted, the PTAB invalidated 11,237, yielding an invalidity rate of roughly 51%. On the other hand, patent challengers sought PTAB proceedings to invalidate patents including a total of 108,725 claims. Thus only a bit over 10% of potentially challengeable claims were actually invalidated. More relevant, perhaps, is that of the 49,959 claims actually challenged in instituted PTAB cases, only about 23% of them were invalidated. (The divergence in the last two figures stems from the fact that a challenger can select from all the claims in a patent a subset that it wants to challenge.)

One point to note is that the statistics above include not only IPRs proceedings, but also Covered Business Method (CBM) proceedings, which have been significantly influenced by *Alice Corp. v. CLS Bank*, 134 S.Ct. 2347 (2014). Robert Sachs, *Two Years After Alice: A Survey of the Impact of a "Minor Case" (Part 1)*, June 16, 2016, avail. at http://www.bilskiblog.com/blog/2016/06/two-years-after-alice-a-survey-of-the-impact-of-a-minor-case.html#_ftnref1 (83.6% of CBM petitions brought to invalidate patents under § 101 are successful).

4. Judicial Review for Non-"Mine-Run" Claims. The majority's holding on § 314(d)'s preclusion of judicial review is limited to what Justice Breyer calls "mine-run" claims—a class of claims later defined more precisely to mean challenges "closely tied to the application and interpretation of statutes related to the Patent Office's decision to initiate inter partes review." As Justice Alito's dissent points out, that limitation on the court's holding creates a "mystery" as to which issues can be reviewed and also how parties can obtain review on those issues.

The Federal Circuit opinion below left open the possibility that "mandamus may be available to challenge the PTO's decision to grant a petition to institute IPR after the Board's final decision in situations where the PTO has clearly and indisputably exceeded its authority." *In re Cuozzo Speed Technologies, LLC*, 793 F.3d 1268, 1274 (Fed. Cir. 2015). Mandamus is, however, a discretionary writ and, moreover, the party seeking mandamus must demonstrate a "clear and indisputable" right to relief. *Id.* at 1274. Thus, while judicial review might be theoretically available in extreme cases such as some of the hypotheticals discussed in Justice Alito's dissent, review will be barred in the vast majority of cases.

5. Broadest Reasonable Interpretation and Agency Power. In the opinion below, the Federal Circuit had ruled not only that the PTO could properly promulgate a rule requiring broadest reasonable interpretation, but also that "Congress implicitly approved the broadest reasonable interpretation standard in enacting the AIA." 793 F.3d at 1278. That reasoning seemed

to mean that the statute itself *required* broadest reasonable interpretation, so the agency was compelled to use that interpretive rule.

The Supreme Court decision pretty clearly undermines that portion of the Federal Circuit's reasoning and thus gives the agency *more* power on the issue. The majority opinion expressly states that "[t]he Patent Office is legally free to accept or reject such policy arguments [favoring using an ordinary meaning approach to claim interpretation] on the basis of its own reasoned analysis." Should the agency reconsider its approach to interpreting claims? *Cuozzo* was decided in an election year in which the incumbent President cannot run for reelection, so there will certainly be a new Administration in 2017, and the Supreme Court's opinion means that the new administration will be free to reconsider this issue.

6. The PTO's Rulemaking Powers. While the Supreme Court gives a fairly wide scope to the PTO's rulemaking powers concerning IPRs, the Court also mentions the agency general rulemaking power, which is found in 35 U.S.C. § 2(b)(2)(A) and gives the agency power to promulgate rules "govern[ing] ... proceedings in the [PTO]." Although prior Federal Circuit case law had interpreted that grant of rulemaking power as being limited to enacting *procedural rules*, the Supreme Court casts doubt on that interpretation by stating that the agency general rulemaking statute "does not clearly contain the Circuit's claimed limitation."

The PTO has never asserted power to write *substantive* regulations on patent law (e.g., regulations defining patentable subject matter or obviousness). Rather, the agency has so far chosen to write "guidelines" that do not purport to have the same binding quality as rules. Should the PTO now issue substantive rules? Would PTO rules be helpful in providing certainty to areas, such as patentable subject matter, where the judge-made law has significant ambiguity and unclarity?

Chap. 10.C: At the end of the discussion of administrative proceedings on page 1056, add the following new optional exercise, which is designed to help improve knowledge of the changes made by the AIA to the PTO's Administrative Procedures:

Exercise: Administrative Processes After the AIA

After the enactment of the AIA, the PTO has at least 13 possible administrative processes relevant to the practice of patent law (those in bold are new or substantially revised by the AIA):

1. Initial examination - §§ 131-34
 - 2. Pre-issuance submissions by third parties - § 122(e)**
 3. Interference - old § 135
 - 4. Derivation - new § 135**
 5. Reissue - § 251-52
 6. Disclaimer - § 253
 7. Correction - §§ 254-56
 - 8. Supplemental examination - § 257**
 - 9. Ex parte reexamination (revised by AIA) - §§ 301-07**
 - 10. Inter partes reexamination (revised by AIA and being phased out) - old §§ 311-18**
 - 11. Inter partes review - new §§ 311-19**
 - 12. Post-grant review - §§ 321-29**
 - 13. Transitional post-grant review for covered business methods ("CBM") proceedings - §§ 321-29 + AIA § 18**
-

The following exercise is designed to provide questions that will require some attention to the statute. The best way to answer these questions is to work through them with the Patent Act at your side. While it is possible simply to skip ahead to the answers, such an approach will result in little or no learning. We therefore suggest that you try to find the answer in the statute—for hunting through the statutory provisions is a good way for you to become familiar with the new law.

For all thirteen proceedings, please try to answer the following question:

1. Is the proceeding after the enactment of the AIA being: (i) phased in, phased out, continued with changes, or continue unchanged and, (ii) if the proceeding is being phased in, phased out or changed, what is the precise transition rule?

For proceedings 9, 11, 12 and 13 (which are the four main ways to challenge the validity of a patent after the AIA), please try to answer the following questions:

2. Who can initiate the proceeding? Please provide the citation for the statutory section that gives an answer.

- (a) An inventor
- (b) The patent owner
- (c) Competitors of a patent holder
- (d) Consumers of the patented product
- (e) Anyone harmed by the patent
- (f) Any member of the public
- (g) Other _____.

3. When can the process be initiated? Please provide the citation for the statutory section that gives an answer.

- (a) Anytime
- (b) While a patent application is pending
- (c) Any time after patent issuance
- (d) During a certain window beginning _____ and ending _____.

4. What patent validity issues can be raised in the proceeding? Please provide the citation for the statutory section that gives an answer.

5. What showing, if any, does the party have to make in order to invoke the process? Please provide the citation for the statutory section that gives an answer.

6. Does the PTO have discretion to decline to initiate the process or is the agency legally obligated to initiate the process if the party invoking the process makes any relevant threshold showing? Please provide the citation for the statutory section that gives an answer.

7. What administrative hearing rights and administrative appeal rights do the parties have? Please provide the citation for the statutory section that gives an answer.

8. What are the possible outcomes of the process? Please provide the citation for the statutory section that gives an answer.

- (a) Issuance of a patent.
- (b) Revocation of a patent.
- (c) Issuance of a new patent with (i) broader claims and/or (ii) narrower claims.
- (d) Other: _____

9. What is the process for judicial review after the completion of the process? Please provide the citation for the statutory section that gives an answer.

- (a) Judicial review in a district court under the Administrative Procedure Act? (This is the default rule unless the statute says otherwise.)
- (b) Other type of review specified by statute: _____
- (c) Both.
- (d) Neither.

10. What are the possible negative consequences for the party that initiated the process?

- (a) Discipline or disbarment of the attorneys who participated in the process.
- (b) Criminal sanctions.
- (c) Estoppel in the following future circumstances _____.
- (d) All of the above.

(Answers begin on next page.)

Answers:

1. Is the proceeding after the enactment of the AIA being: (i) phased in, phased out, continued with changes, or continue unchanged and, (ii) if the proceeding is being phased in, phased out or changed, what is the precise transition rule?

Proceeding Type	Answer:
1. Initial examination - §§ 131-34	Continued with substantial changes (the first-to-file priority system). Transition Rule: 18 months after AIA (changes apply to all applications filed on or after March 16, 2013 or applications filed before that date but that were later amended to contain claims with priority dates on or after March 16, 2013). Because several parts of the AIA have the same transition rules we will refer to this category of patent applications as AIA first-to-file applications .
2. Pre-issuance submissions by third parties - § 122(e)	Phased in: The AIA enacted an entirely new statutory process for third party submissions, though the PTO had previously allowed some third party submissions under its administrative rules. Transition Rule: One year after AIA (the new process began on September 16, 2012 and applied to all pending and future patent applications).
3. Interference - old § 135	Phased Out (interferences decide which patent applicant invented first, and that issue is irrelevant under the AIA first-to-file system). Transition Rule: Ends 18 months after AIA (continues to apply to applications filed before March 16, 2013, and to patents issued on such applications)
4. Derivation - new § 135	New with AIA (tries to determine whether one party derived an invention from another). Transition Rule: Applies to AIA first-to-file applications .
5. Reissue (minor revisions by AIA) – § 251-52	Continued with small changes (reissue applicant no longer has to prove that the error to be changed with reissue occurred without “deceptive intent”). Transition Rule: One year after AIA (applies to all reissue proceedings commenced on or after September 16, 2012).
6. Disclaimer - § 253	Continued with small changes (applicant no longer has to prove that the error in claiming occurred without “deceptive intent”).

	Transition Rule: One year after AIA (applies to all proceedings commenced on or after September 16, 2012).
7. Correction - §§ 254-56	Continued with small changes (where proceeding is being used to correct error with the named inventor, the applicant no longer has to prove that the error occurred without “deceptive intent”). Transition Rule: One year after AIA (applies to all proceedings commenced on or after September 16, 2012).
8. Supplemental examination - § 257	Entirely new with AIA. Transition Rule: One year after AIA (began on September 16, 2012 and can be applied to any existing or subsequently issued patent).
9. Ex parte reexamination (revised by AIA) - §§ 301-07	Modified by the AIA. Transition Rule: One year after AIA (applies to all proceedings commenced on or after September 16, 2012).
10. Inter partes reexamination (revised by AIA) - old §§ 311-18	Both revised by AIA and repealed. Transitions Rules: Revisions were effective immediately (on Sept. 16, 2011). Repeal of the inter partes reexam occurred one year after enactment of AIA (applicable to filings on or after Sept. 16, 2011).
11. Inter partes review - new §§ 311-19	New but similar to old inter partes reexaminations. Transition Rule: One year after AIA (filings for inter partes review could begin on Sept. 16, 2012 and could challenge any issued patent).
12. Post-grant review - §§ 321-29	Entirely new. Transition Rule: Applies to AIA first-to-file applications .
13. Covered Business Method (“CBM”) Proceedings - §§ 321-29 + AIA § 18	Entirely new. Transition Rule: One year after AIA (filings for could begin on Sept. 16, 2012 and could challenge any issued patent).

2. Who can initiate the proceeding? Please provide the citation for the statutory section that gives an answer.

- (a) An inventor
- (b) The patent owner
- (c) Competitors of a patent holder
- (d) Consumers of the patented product
- (e) Anyone harmed by the patent
- (f) Any member of the public
- (g) Other _____.

Proceeding Type	Answer:
9. Ex parte reexam – §§ 301-07	(f), 35 U.S.C. § 301(a).
11. Inter partes review (IPR) – new §§ 311-19	(g) – anyone except the patent owner (see 35 U.S.C. § 311(a)).
12. Post-grant review (PGR) – §§ 321-29	(g) – anyone except the patent owner (see 35 U.S.C. § 321(a)).
13. Covered Business Method (“CBM”) Proceedings – §§ 321-29 + AIA § 18	(g) – anyone except the patent owner (see 35 U.S.C. § 311(a) as made applicable by AIA § 18).

3. When can the process be initiated? Please provide the citation for the statutory section that gives an answer.

- (a) Anytime
- (b) While a patent application is pending
- (c) Any time after patent issuance
- (d) Any time after _____
- (e) During a certain window beginning _____ and ending _____.

Proceeding Type	Answer:
9. Ex parte reexam – §§ 301-07	(c), 35 U.S.C. § 302(a). (Although the statute says that the request for reexam can be filed <i>anytime</i> , the request has to be made with respect to an issued patent.)
11. Inter partes review (IPR) – new §§ 311-19	<p>There are two answers here.</p> <p>For patents that issue from non-AIA first-to-file applications (i.e., that were filed before March 16, 2013), the answer is (c). (This rule was made by § 1(d)(1) of the AIA Technical Correction Act, 126 Stat. 2456, 2456 (2013).)</p> <p>For patents that issue from AIA first-to-file applications (i.e., those filed on or after March 16, 2013), the answer is (d), any time after the later of 9 months after patent issuance or after the end of any post-grant review proceeding. See 35 U.S.C. § 311(c).</p>
12. Post-grant review (PGR) – §§ 321-29	(e), a window beginning with patent issuance and ending 9 months thereafter. See 35 U.S.C. § 321(c).
13. Covered Business Method (“CBM”) Proceedings – §§ 321-29 + AIA § 18	(c), § 18(a)(1)(A) of the AIA allows the PGR process to be used to review covered business method patents without regard to filing time.

4. What patent validity issues can be raised in the proceeding? Please provide the citation for the statutory section that gives an answer.

Proceeding Type	Answer:
9. Ex parte reexam – §§ 301-07	For certain, §§ 102 and 103 issues can be raised where patents and printed publications constitute the basis for invalidity. See 35 U.S.C. § 301(a)(1). It is possible that some other invalidity grounds can be raised too. 35 U.S.C. § 301(a)(2) allows a requester to obtain reexam because the patent owner has taken certain positions in litigation. Presumably, a broad construction of a patent claim by the owner could make the claim vulnerable not only under §§ 102 and 103 but also under § 101 or § 112.
11. Inter partes review (IPR) – new §§ 311-19	Only §§ 102 and 103 issues and only on the basis of prior art consisting of patents and printed publications. 35 U.S.C. § 311(b).
12. Post-grant review (PGR) – §§ 321-29	Any ground that could be raised as an invalidity defense in patent litigation. See 35 U.S.C. § 321(b).
13. Covered Business Method (“CBM”) Proceedings – §§ 321-29 + AIA § 18	Same as PGR, except that §18 of the AIA imposes some limits on the prior art that can be used in making 102 and 103 arguments.

5. What showing, if any, does the party have to make in order to invoke the process? Please provide the citation for the statutory section that gives an answer.

Proceeding Type	Answer:
9. Ex parte reexam – §§ 301-07	Reexamination requires the Director to determine that there is a “substantial new question of patentability.” See 35 U.S.C. § 303(a). Technically, the requesting party does not have to have proof to meet that standard because the Director is allowed to make his own inquiry into the matter.
11. Inter partes review (IPR) – new §§ 311-19	35 U.S.C. § 314(a) – the Director cannot institute inter partes review unless he finds that there is a “reasonable likelihood” that the petitioner would prevail in invalidating at least 1 claim.
12. Post-grant review (PGR) – §§ 321-29	35 U.S.C. § 324(a) & (b) – the Director cannot institute PGR unless he finds that “it is more likely than not” that the proceeding will result in at least 1 claim being held unpatentable <u>or</u> the petition raises a novel or unsettled legal issue.
13. Covered Business Method (“CBM”) Proceedings – §§ 321-29 + AIA § 18	Same as PGR.

6. Does the PTO have discretion to decline to initiate the process or is the agency legally obligated to initiate the process if the party invoking the process makes any relevant threshold showing? Please provide the citation for the statutory section that gives an answer.

Proceeding Type	Answer:
9. Ex parte reexam – §§ 301-07	Technically, the PTO is legally obligated. The Director is required under 35 U.S.C. § 303 to make a determination and required under § 304 to initiate reexamination if the determination comes out in a particular way.
11. Inter partes review (IPR) – new §§ 311-19	The Director has discretion; the statute 35 U.S.C. § 314(a) limits the Director's ability to grant review but not to deny it.
12. Post-grant review (PGR) – §§ 321-29	The Director has discretion; the statute 35 U.S.C. § 324 limits the Director's ability to grant review but not to deny it.
13. Covered Business Method (“CBM”) Proceedings – §§ 321-29 + AIA § 18	Same as PGR.

7. What administrative hearing rights and administrative appeal rights do the parties have? Please provide the citation for the statutory section that gives an answer.

Proceeding Type	Answer:
9. Ex parte reexam – §§ 301-07	The patent owner has rights similar to initial examination, including the right to appeal to the PTO Board. See 35 U.S.C. § 305. The party requesting reexamination has no rights (hence it's called "ex parte").
11. Inter partes review (IPR) – new §§ 311-19	Each side has significant procedural rights as noted in 35 U.S.C. § 316 and rights to appeal under 35 U.S.C. § 319.
12. Post-grant review (PGR) – §§ 321-29	Each side has significant procedural rights as noted in 35 U.S.C. § 326 and rights to appeal under 35 U.S.C. § 329.
13. Covered Business Method ("CBM") Proceedings – §§ 321-29 + AIA § 18	Same as PGR.

8. What are the possible outcomes of the process? Please provide the citation for the statutory section that gives an answer.

- (a) Issuance of a patent.
- (b) Revocation of a patent.
- (c) Issuance of a new patent with (i) broader claims and/or (ii) narrower claims.
- (d) Other: _____

Proceeding Type	Answer:
9. Ex parte reexam – §§ 301-07	Answer is either (b) + (c)(ii), or (d). The process can result in issuance of certificate holding all claims unpatentable, which is equivalent to answer (b). See 35 U.S.C. § 307. In addition, the process can hold unpatentable only some of the claims in the patent, and the patentee can also add new claims provided that they do not “enlarge[] the scope of a claim.” 35 U.S.C. § 305.
11. Inter partes review (IPR) – new §§ 311-19	Similar to ex parte reexam. Patent claims can be confirmed, invalidated or narrowed by amendment (see 35 U.S.C. § 316(d)).
12. Post-grant review (PGR) – §§ 321-29	Similar to ex parte reexam. Patent claims can be confirmed, invalidated or narrowed by amendment (see 35 U.S.C. § 326(d)).
13. Covered Business Method (“CBM”) Proceedings – §§ 321-29 + AIA § 18	Same as PGR.

9. What is the process for judicial review after the completion of the process? Please provide the citation for the statutory section that gives an answer.

(a) Judicial review in a district court under the Administrative Procedure Act? (This is the default rule unless the statute says otherwise.)

(b) Other type of review specified by statute: _____

(c) Both.

(d) Neither.

Proceeding Type	Answer:
9. Ex parte reexam – §§ 301-07	(b), review is by direct appeal from the PTO to the Federal Circuit. See 35 U.S.C. § 306.
11. Inter partes review (IPR) – new §§ 311-19	(b), review is by direct appeal from the PTO to the Federal Circuit. See 35 U.S.C. § 319.
12. Post-grant review (PGR) – §§ 321-29	(b), review is by direct appeal from the PTO to the Federal Circuit. See 35 U.S.C. § 329.
13. Covered Business Method (“CBM”) Proceedings – §§ 321-29 + AIA § 18	(b), review is by direct appeal from the PTO to the Federal Circuit. See 35 U.S.C. § 329.

10. What are the possible negative consequences for the party that initiated the process?

- (a) Discipline or disbarment of the attorneys who participated in the process.
- (b) Criminal sanctions.
- (c) Estoppel in the following future circumstances _____.
- (d) All of the above.

(d). All of the above. Parties who file any documents at the PTO are always subject to a duty of honesty and can be administratively sanctioned for improper behavior. Administrative sanctions can include even the severe sanction of disbarment from the patent bar. Also, the criminal statute 18 U.S.C. § 1001 offers sanctions for any person who makes false statements to government agencies, including the PTO.

In addition to a duty of honesty, parties to PTO proceedings sometimes have a duty of candor, which can include a duty to disclose some adverse material information. Patent applicants and patents owners generally have that duty of candor in all PTO proceedings. The requesters in inter partes review, post-grant review and CBM proceedings also have a duty of candor. It appears to be true that the PTO imposes no duty of candor on requesters for ex parte reexam (possibly the absence of any such duty is due to the requester's limited participation in the process).

The estoppel effects are summarized here:

Proceeding Type	Answer:
9. Ex parte reexam – §§ 301-07	No estoppel.
11. Inter partes review (IPR) – new §§ 311-19	The estoppel provision is set forth in 35 U.S.C. § 315(e). Note that it imposes an estoppel on any ground that the petitioner raised or <i>reasonably could have raised</i> during the inter partes review. It is not entirely clear whether the estoppel operates if the petitioner raises the issue in the petition seeking review and the Director denies review.
12. Post-grant review (PGR) – §§ 321-29	The estoppel provision is set forth in 35 U.S.C. § 325(e). Note that it imposes an estoppel on any ground that the petitioner raised or <i>reasonably could have raised</i> during PGR. It is not entirely clear whether the estoppel operates if the petitioner raises the issue in the petition seeking review and the Director denies review.
13. Covered Business Method (“CBM”) Proceedings – §§ 321-29 + AIA § 18	Estoppel effect of CBM proceeding is more limited; petitioner in the CBM proceeding is estopped only on grounds actually raised in the proceeding (not on grounds that could have been raised). See AIA § 18.

Chapter 12: Antitrust and Patent Misuse

Chap. 12.A.2: After note 4 on p. 1197, add the following note on *Kimble v. Marvel Entertainment*, 135 S. Ct. 2401 (2015):

5. *Kimble v. Marvel Entertainment: Brulotte Sustained.* As noted in the casebook, the *Brulotte* rule was repeatedly criticized by judges and commentators. In 2014, the Supreme Court finally granted certiorari on question whether *Brulotte* should be overruled. On June 22, 2015, the Court issued an anticlimactic decision that relied on the doctrine of *stare decisis* and refused to overturn *Brulotte*. Though the *Kimble* decision could be viewed as a non-event—the whole point of the ruling was that the law should stay the same—there are nonetheless four aspects of the decision worth noting.

First, the facts of the case provide a cautionary tale: attorneys writing patent licenses need to be aware of *Brulotte* and other highly specific rules about patent licensing.

The facts of the case are both simple and fun. The invention in the case was a “toy that allows children (and young-at-heart adults) to role-play as ‘a spider person’ by shooting webs—really, pressurized foam string—‘from the palm of [the] hand.’” 135 S.Ct. at 2405. The inventor, Stephen Kimble, obtained patent rights on the device, and sometime later, Marvel Entertainment (the originator of the Spider-Man comic series) began producing an arguably infringing product. Kimble sued Marvel, and the parties were ultimately able to reach a settlement. In the following passage, the Supreme Court describes that settlement and what happened next:

Their [settlement] agreement provided that Marvel would purchase Kimble’s patent in exchange for a lump sum (of about a half-million dollars) and a 3% royalty on Marvel’s future sales of the Web Blaster and similar products. The parties set no end date for royalties, apparently contemplating that they would continue for as long as kids want to imitate Spider-Man (by doing whatever a spider can).

And then Marvel stumbled across *Brulotte*, the case at the heart of this dispute. *In negotiating the settlement, neither side was aware of Brulotte.* But Marvel must have been pleased to learn of it. *Brulotte* had read the patent laws to prevent a patentee from receiving royalties for sales made after his patent’s expiration. See 379 U.S., at 32. So the decision’s effect was to sunset the settlement’s royalty clause. On making that discovery, Marvel sought a declaratory judgment in federal district court confirming that the company could cease paying royalties come 2010—the end of Kimble’s patent term. The court approved that relief, holding that *Brulotte* made “the royalty provision . . . unenforceable after the expiration of the Kimble patent.” 692 F. Supp. 2d 1156, 1161 (Ariz. 2010). The Court of Appeals for the Ninth Circuit affirmed, though making clear that it was none too happy about doing so. “[T]he *Brulotte* rule,” the court complained, “is counterintuitive and its rationale is arguably unconvincing.” 727 F. 3d 856, 857 (2013).

135 S.Ct. at 2406 (emphasis added). Note the italicized sentence: the lawyers negotiating the Kimble-Marvel settlement *did not know about the Brulotte rule!* That’s just terrible lawyering for Kimble—don’t let the same thing happen to you!!!

Second, the *Kimble* Court did a fairly good job—better than the *Brulotte* opinion itself—of trying to explain the basis for the rule:

Patents endow their holders with certain superpowers, but only for a limited time. In crafting the patent laws, Congress struck a balance between fostering innovation and ensuring public access to discoveries. While a patent lasts, the patentee possesses

exclusive rights to the patented article—rights he may sell or license for royalty payments if he so chooses. See 35 U.S.C. § 154(a)(1). But a patent typically expires 20 years from the day the application for it was filed. See § 154(a)(2). And when the patent expires, the patentee's prerogatives expire too, and the right to make or use the article, free from all restriction, passes to the public. See *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 230 (1964).

This Court has carefully guarded that cut-off date, just as it has the patent laws' subject-matter limits: In case after case, the Court has construed those laws to preclude measures that restrict free access to formerly patented, as well as unpatentable, inventions. In one line of cases, we have struck down state statutes with that consequence. See, e.g., *id.*, at 230–233; *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 152, 167–168 (1989); *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234, 237–238 (1964). By virtue of federal law, we reasoned, “an article on which the patent has expired,” like an unpatentable article, “is in the public domain and may be made and sold by whoever chooses to do so.” *Sears*, 376 U.S., at 231. In a related line of decisions, we have deemed unenforceable private contract provisions limiting free use of such inventions. In *Scott Paper Co. v. Marcalus Mfg. Co.*, 326 U.S. 249 (1945), for example, we determined that a manufacturer could not agree to refrain from challenging a patent's validity. Allowing even a single company to restrict its use of an expired or invalid patent, we explained, “would deprive ... the consuming public of the advantage to be derived” from free exploitation of the discovery. *Id.*, at 256. And to permit such a result, whether or not authorized “by express contract,” would impermissibly undermine the patent laws. *Id.*, at 255–256; see also, e.g., *Edward Katzinger Co. v. Chicago Metallic Mfg. Co.*, 329 U.S. 394, 400–401 (1947) (ruling that *Scott Paper* applies to licensees); *Lear, Inc. v. Adkins*, 395 U.S. 653, 668–675 (1969) (refusing to enforce a contract requiring a licensee to pay royalties while contesting a patent's validity).

Brulotte was brewed in the same barrel. ...

135 S.Ct. at 2406-07. This passage is one good way of viewing cases like *Brulotte*—that the federal Patent Act protects not only patentee's rights in patents, but also the public's right to practice unpatented technologies freely. That's a controversial view, however, because while the Patent Act quite plainly provides patentees exclusive rights to their inventions (e.g., in 35 U.S.C. §§ 154 & 271), it does not explicitly provide any rights to members of the public concerning unpatented or previously patented technologies.

Third, the *Kimble* Court noted—and seemingly accepted—that the *Brulotte* rule could be avoided through several contractual structures:

[P]arties can often find ways around *Brulotte*, enabling them to achieve those same ends. To start, *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. See 379 U.S., at 31. A licensee could agree, for example, to pay the licensor a sum equal to 10% of sales during the 20-year patent term, but to amortize that amount over 40 years. That arrangement would at least bring down early outlays, even if it would not do everything the parties might want to allocate risk over a long timeframe. And parties have still more options when a licensing agreement covers either multiple patents or additional non-patent rights. Under *Brulotte*, royalties may run until the latest-running patent covered in the parties' agreement expires. See 379 U.S., at 30. Too, post-expiration royalties are allowable so long as tied to a non-patent right—even when closely related to a patent. See, e.g., 3 Milgrim on Licensing § 18.07, at 18–16 to 18–17. That means, for example, that a license involving both a patent

and a trade secret can set a 5% royalty during the patent period (as compensation for the two combined) and a 4% royalty afterward (as payment for the trade secret alone). Finally and most broadly, *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.

135 S.Ct. at 2408. That passage provides a nice template of ways for complying with *Brulotte* but still achieving the legitimate business goals of parties. How could the Kimble-Marvel deal have been originally structured so that Kimble could continue to get a share in the profits of the product after his patent has expired?

In thinking about that prior question, remember one thing that makes the Kimble-Marvel product different from many other products. Theoretically, when a patent expires, the price of the product previously covered by the patent will fall down to a competitive price. That's not likely to happen for the product made possible under the Kimble-Marvel agreement because Marvel has Spider-Man trademarks and copyrights that are going to remain in force and remain very valuable in connection with a toy web-string-shooter. (Many little Johnny and Janes are going to want the Spider-Man® web-shooter, not some generic web-string-shooter.) Imagine that Kimble and Marvel each licensed all of the necessary IP (all of the trademark, copyright and patent rights) to a separate company (or joint venture) that produced the product. If Kimble received 50% of the stock of that separate company, he would continue reap rewards from sales of the toys long after the expiration of his patent. Would that arrangement violate *Brulotte*?

Fourth, Kimble articulates a fairly strong version of stare decisis in statutory cases *even where the earlier decision is not grounded in any specific statutory text*:

[S]tare decisis carries enhanced force when a decision, like *Brulotte*, interprets a statute. Then, unlike in a constitutional case, critics of our ruling can take their objections across the street, and Congress can correct any mistake it sees. See, e.g., *Patterson v. McLean Credit Union*, 491 U.S. 164, 172–173 (1989). That is true, contrary to the dissent's view, see post, at 2417 – 2418 (opinion of ALito, J.), regardless whether our decision focused only on statutory text or also relied, as *Brulotte* did, on the policies and purposes animating the law. See, e.g., *Bilski v. Kappos*, 561 U.S. 593, 601–602 (2010). Indeed, we apply statutory stare decisis even when a decision has announced a “judicially created doctrine” designed to implement a federal statute. *Halliburton*, 573 U.S., at —, 134 S.Ct., at 2411. All our interpretive decisions, in whatever way reasoned, effectively become part of the statutory scheme, subject (just like the rest) to congressional change. Absent special justification, they are balls tossed into Congress's court, for acceptance or not as that branch elects.

135 S.Ct. at 2409. That view of *stare decisis* has general applicability to many areas of law, but it is also especially important in patent law, where at least some significant Supreme Court decisions do not seem especially well-grounded in the text of the Patent Act. *Kimble* means that such policy-infused decisions are likely to remain good law until Congress can be persuaded to change them.

Chap. 12.B: In place of note 6 on pp. 1210-11, add the following case:

Bowman v. Monsanto Co.
133 S.Ct. 1761 (2013)

Justice KAGAN delivered the opinion of the Court.

Under the doctrine of patent exhaustion, the authorized sale of a patented article gives the purchaser, or any subsequent owner, a right to use or resell that article. Such a sale, however, does not allow the purchaser to make new copies of the patented invention. The question in this case is whether a farmer who buys patented seeds may reproduce them through planting and harvesting without the patent holder's permission. We hold that he may not.

I

Respondent Monsanto invented a genetic modification that enables soybean plants to survive exposure to glyphosate, the active ingredient in many herbicides (including Monsanto's own Roundup). Monsanto markets soybean seed containing this altered genetic material as Roundup Ready seed. Farmers planting that seed can use a glyphosate-based herbicide to kill weeds without damaging their crops. Two patents issued to Monsanto cover various aspects of its Roundup Ready technology, including a seed incorporating the genetic alteration.

Monsanto sells, and allows other companies to sell, Roundup Ready soybean seeds to growers who assent to a special licensing agreement. See App. 27a. That agreement permits a grower to plant the purchased seeds in one (and only one) season. He can then consume the resulting crop or sell it as a commodity, usually to a grain elevator or agricultural processor. See 657 F.3d, at 1344–1345. But under the agreement, the farmer may not save any of the harvested soybeans for replanting, nor may he supply them to anyone else for that purpose. These restrictions reflect the ease of producing new generations of Roundup Ready seed. Because glyphosate resistance comes from the seed's genetic material, that trait is passed on from the planted seed to the *1765 harvested soybeans: Indeed, a single Roundup Ready seed can grow a plant containing dozens of genetically identical beans, each of which, if replanted, can grow another such plant—and so on and so on. See App. 100a. The agreement's terms prevent the farmer from co-opting that process to produce his own Roundup Ready seeds, forcing him instead to buy from Monsanto each sea-son.

Petitioner Vernon Bowman is a farmer in Indiana who, it is fair to say, appreciates Roundup Ready soybean seed. He purchased Roundup Ready each year, from a company affiliated with Monsanto, for his first crop of the season. In accord with the agreement just described, he used all of that seed for planting, and sold his entire crop to a grain elevator (which typically would resell it to an agricultural processor for human or animal consumption).

Bowman, however, devised a less orthodox approach for his second crop of each season. Because he thought such late-season planting “risky,” he did not want to pay the premium price that Monsanto charges for Roundup Ready seed. He therefore went to a grain elevator; purchased “commodity soybeans” intended for human or animal consumption; and planted them in his fields. Those soybeans came from prior harvests of other local farmers. And because most of those farmers also used Roundup Ready seed, Bowman could anticipate that many of the purchased soybeans would contain Monsanto's patented technology. When he applied a glyphosate-based herbicide to his fields, he confirmed that this was so; a significant proportion of the new plants survived the treatment, and produced in their turn a new crop of soybeans with the

Roundup Ready trait. Bowman saved seed from that crop to use in his late-season planting the next year—and then the next, and the next, until he had harvested eight crops in that way. Each year, that is, he planted saved seed from the year before (sometimes adding more soybeans bought from the grain elevator), sprayed his fields with glyphosate to kill weeds (and any non-resistant plants), and produced a new crop of glyphosate-resistant—i.e., Roundup Ready—soybeans.

After discovering this practice, Monsanto sued Bowman for infringing its patents on Roundup Ready seed. Bowman raised patent exhaustion as a defense, arguing that Monsanto could not control his use of the soybeans because they were the subject of a prior authorized sale (from local farmers to the grain elevator). The District Court rejected that argument, and awarded damages to Monsanto of \$84,456. The Federal Circuit affirmed. It reasoned that patent exhaustion did not protect Bowman because he had “created a newly infringing article.” 657 F.3d, at 1348. The “right to use” a patented article following an authorized sale, the court explained, “does not include the right to construct an essentially new article on the template of the original, for the right to make the article remains with the patentee.” *Ibid.* (brackets and internal quotation marks omitted). Accordingly, Bowman could not “‘replicate’ Monsanto’s patented technology by planting it in the ground to create newly infringing genetic material, seeds, and plants.” *Ibid.*

The doctrine of patent exhaustion limits a patentee’s right to control what others can do with an article embodying or containing an invention. Under the doctrine, “the initial authorized sale of a patented item terminates all patent rights to that item.” *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617, 625 (2008). And by “exhaust[ing] the [patentee’s] monopoly” in that item, the sale confers on the purchaser, or any subsequent owner, “the right to use [or] sell” the thing as he sees fit. *United States v. Univis Lens Co.*, 316 U.S. 241, 249–250 (1942). We have explained the basis for the doctrine as follows: “[T]he purpose of the patent law is fulfilled with respect to any particular article when the patentee has received his reward . . . by the sale of the article”; once that “purpose is realized the patent law affords no basis for restraining the use and enjoyment of the thing sold.” *Id.*, at 251.

Consistent with that rationale, the doctrine restricts a patentee’s rights only as to the “particular article” sold, *ibid.*; it leaves untouched the patentee’s ability to prevent a buyer from making new copies of the patented item. “[T]he purchaser of the [patented] machine . . . does not acquire any right to construct another machine either for his own use or to be vended to another.” *Mitchell v. Hawley*, 16 Wall. 544, 548, 21 L.Ed. 322 (1873). Rather, “a second creation” of the patented item “call[s] the monopoly, conferred by the patent grant, into play for a second time.” *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 365 U.S. 336, 346 (1961). That is because the patent holder has “received his reward” only for the actual article sold, and not for subsequent recreations of it. *Univis*, 316 U.S., at 251. If the purchaser of that article could make and sell endless copies, the patent would effectively protect the invention for just a single sale. Bowman himself disputes none of this analysis as a general matter: He forthrightly acknowledges the “well settled” principle “that the exhaustion doctrine does not extend to the right to ‘make’ a new product.” Brief for Petitioner 37.

Unfortunately for Bowman, that principle decides this case against him. Under the patent exhaustion doctrine, Bowman could resell the patented soybeans he purchased from the grain elevator; so too he could consume the beans himself or feed them to his animals. Monsanto, although the patent holder, would have no business interfering in those uses of Roundup Ready beans. But the exhaustion doctrine does not enable Bowman to make *additional* patented soybeans without Monsanto’s permission (either express or implied). And that is precisely what Bowman did. He took the soybeans he purchased home; planted them in his fields at the time he

thought best; applied glyphosate to kill weeds (as well as any soy plants lacking the Roundup Ready trait); and finally harvested more (many more) beans than he started with. That is how “to ‘make’ a new product,” to use Bowman's words, when the original product is a seed. Brief for Petitioner 37; see Webster's Third New International Dictionary 1363 (1961) (“make” means “cause to exist, occur, or appear,” or more specifically, “plant and raise (a crop)”). Because Bowman thus reproduced Monsanto's patented invention, the exhaustion doctrine does not protect him.

Were the matter otherwise, Monsanto's patent would provide scant benefit. After inventing the Roundup Ready trait, Monsanto would, to be sure, “receiv[e] [its] reward” for the first seeds it sells. *Univis*, 316 U.S., at 251. But in short order, other seed companies could reproduce the product and market it to growers, thus depriving Monsanto of its monopoly. And farmers themselves need only buy the seed once, whether from Monsanto, a competitor, or (as here) a grain elevator. The grower could multiply his initial purchase, and then multiply that new creation, *ad infinitum*—each time profiting from the patented seed without compensating its inventor. Bowman's late-season plantings offer a prime illustration. After buying beans for a single harvest, Bowman saved enough seed each year to reduce or eliminate the need for additional purchases. Monsanto still held its patent, but received no gain from Bowman's annual production and sale of Roundup Ready soybeans. The exhaustion doctrine is limited to the “particular item” sold to avoid just such a mismatch between invention and reward.

Bowman principally argues that exhaustion should apply here because seeds are meant to be planted. The exhaustion doctrine, he reminds us, typically prevents a patentee from controlling the use of a patented product following an authorized sale. And in planting Roundup Ready seeds, Bowman continues, he is merely using them in the normal way farmers do. Bowman thus concludes that allowing Monsanto to interfere with that use would “creat[e] an impermissible exception to the exhaustion doctrine” for patented seeds and other “self-replicating technologies.” Brief for Petitioner 16.

But it is really Bowman who is asking for an unprecedented exception. Reproducing a patented article no doubt “uses” it after a fashion. But as already explained, we have always drawn the boundaries of the exhaustion doctrine to exclude that activity, so that the patentee retains an undiminished right to prohibit others from making the thing his patent protects. See, e.g., *Cotton-Tie Co. v. Simmons*, 106 U.S. 89, 93–94 (1882) (holding that a purchaser could not “use” the buckle from a patented cotton-bale tie to “make” a new tie). That is because, once again, if simple copying were a protected use, a patent would plummet in value after the first sale of the first item containing the invention. The undiluted patent monopoly, it might be said, would extend not for 20 years (as the Patent Act promises), but for only one transaction. And that would result in less incentive for innovation than Congress wanted. Hence our repeated insistence that exhaustion applies only to the particular item sold, and not to reproductions.

Nor do we think that rule will prevent farmers from making appropriate use of the Roundup Ready seed they buy. Bowman himself stands in a peculiarly poor position to assert such a claim. As noted earlier, the commodity soybeans he purchased were intended not for planting, but for consumption. [I]n the more ordinary case, when a farmer purchases Roundup Ready seed qua seed—that is, seed intended to grow a crop—he will be able to plant it. Monsanto, to be sure, conditions the farmer's ability to reproduce Roundup Ready; but it does not—could not realistically—preclude all planting. No sane farmer, after all, would buy the product without some ability to grow soybeans from it. And so Monsanto, predictably enough, sells Roundup Ready seed to farmers with a license to use it to make a crop. Applying our usual

rule in this context therefore will allow farmers to benefit from Roundup Ready, even as it rewards Monsanto for its innovation.

Still, Bowman has another seeds-are-special argument: that soybeans naturally “self-replicate or ‘sprout’ unless stored in a controlled manner,” and thus “it was the planted soybean, not Bowman” himself. Brief for Petitioner 42. But we think that blame-the-bean defense tough to credit. Bowman was not a passive observer of his soybeans’ multiplication; or put another way, the seeds he purchased (miraculous though they might be in other respects) did not spontaneously create eight successive soybean crops. As we have explained, Bowman devised and executed a novel way to harvest crops from Roundup Ready seeds without paying the usual premium. In all this, the bean surely figured. But it was Bowman, and not the bean, who controlled the reproduction (unto the eighth generation) of Monsanto’s patented invention.

Our holding today is limited—addressing the situation before us, rather than every one involving a self-replicating product. We recognize that such inventions are becoming ever more prevalent, complex, and diverse. In another case, the article’s self-replication might occur outside the purchaser’s control. Or it might be a necessary but incidental step in using the item for another purpose. We need not address here whether or how the doctrine of patent exhaustion would apply in such circumstances. In the case at hand, Bowman planted Monsanto’s patented soybeans solely to make and market replicas of them. Patent exhaustion provides no haven for that conduct. We accordingly affirm the judgment of the Court of Appeals for the Federal Circuit.

NOTES AND QUESTIONS ON *BOWMAN*

1. Necessity for a License to Make. Footnote 3 from the Court’s opinion, excluded from the excerpt above, reads as follows:

This conclusion applies however Bowman acquired Roundup Ready seed: The doctrine of patent exhaustion no more protected Bowman’s reproduction of the seed he purchased for his first crop (from a Monsanto-affiliated seed company) than the beans he bought for his second (from a grain elevator). The difference between the two purchases was that the first—but not the second—came with a license from Monsanto to plant the seed and then harvest and market one crop of beans. We do not here confront a case in which Monsanto (or an affiliated seed company) sold Roundup Ready to a farmer without an express license agreement. For reasons we explain below, we think that case unlikely to arise. And in the event it did, the farmer might reasonably claim that the sale came with an implied license to plant and harvest one soybean crop.

The Court later explains that a farmer is unlikely to purchase patented seeds from Monsanto without an express license to plant them and grow a crop. It also states that the doctrine of implied license would probably protect the farmer in this situation anyway. The point is important, because it touches on the difference between behavior that is explicitly licensed by a patent owner and acts that are permissible even in the absence of a license. It is interesting that the Court does not say that an express contract may undercut rights otherwise protected under patent exhaustion – a theory that some cases, and more than a few business models, have relied on in recent years.

2. The Absence of a Saved Seed Exemption in the Patent Act. Another omitted part of the opinion emphasizes the differences between a patent and protection of plant varieties under the Plant Variety Protection Act (PVPA). The latter statute includes an explicit “saved seed exemption” from infringement liability, and the Court points out that a ruling in favor of Bowman

in this case would effectively undermine the different regimes for plant variety protection and patents. The idea is that, compared to plant variety protection, patent law applies higher standards to an invention seeking protection, but, once a patent issues, confers broader rights.

NOTE ON LEXMARK v. IMPRESSION PRODUCTS

1. En Banc Decision. On April 14, 2015, the Federal Circuit ordered an *en banc* proceeding to decide two questions:

(a) In light of *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2012), should this court overrule *Jazz Photo Corp. v. International Trade Commission*, 264 F.3d 1094 (Fed. Cir. 2001), to the extent it ruled that a sale of a patented item outside the United States never gives rise to United States patent exhaustion?

(b) In light of *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617 (2008), should this court overrule *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992), to the extent it ruled that a sale of a patented article, when the sale is made under a restriction that is otherwise lawful and within the scope of the patent grant, does not give rise to patent exhaustion?

On February 12, 2016, the Federal Circuit announced its decision. *See Lexmark v. Impression Products*, 816 F.3d 721 (Fed. Cir. 2016). The court decided to reaffirm its precedents on exhaustion, and indeed, the court significantly expanded the ambit of its *Mallinckrodt* opinion.

With respect to domestic exhaustion, the court by a vote of 10-2 held that the exhaustion doctrine applies only to “unrestricted sales” and that the doctrine is best viewed as “treat[ing] a patentee-made or patentee-authorized sale of a patented article (without distinction) as *presumptively* granting “authority” to the purchaser to use it and resell it.” *Id.* at 742. That holding makes exhaustion merely a “default rule,” *id.*, so that the doctrine has no application where a patentee imposes “clearly communicated restrictions” on a sale. *Id.* That holding expands the Federal Circuit’s *Mallinckrodt* decision, which had allowed patentees to impose restriction on *use*. The *en banc* decision allows patentees to impose any “clearly communicated restrictions,” including restrictions on the purchaser’s ability to use or to *resell*.

In demoting the exhaustion doctrine to a mere default rule, the court focused heavily on § 271 of the Patent Act, reasoning:

Congress has declared: “Except as otherwise provided in [the Patent Act], whoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefor, infringes the patent.” 35 U.S.C. § 271(a); see *id.* § 154(a) (granting patentee “right to exclude others” from itemized actions). The doctrine of patent exhaustion (or “first sale” doctrine) addresses the circumstances in which a sale of a patented article (or an article sufficiently embodying a patent), when the sale is made or authorized by the patentee, confers on the buyer the “authority” to engage in acts involving the article, such as resale, that are infringing acts in the absence of such authority. There is nothing “otherwise provided” on the issue in the Patent Act.

816 F.3d at 726.

The court’s reasoning on the domestic exhaustion issue dictated its resolution of the international exhaustion question, for if the entirety of the exhaustion doctrine is merely

presumptive, the international exhaustive doctrine also can be avoided if the patentee imposes restrictions on sales.

2. Petition for Certiorari Filed and the Supreme Court's Call for the Views of the Solicitor General. Impression Products, the loser of the *en banc* decision, rapidly filed a petition for certiorari at the Supreme Court and, on June 20, 2016, the Supreme Court called for the views of the U.S. Solicitor General. As this supplement was being completed, the Solicitor General had not yet filed its amicus brief on the petition for certiorari. In the Court of Appeals, however, the government took the position that, while the Federal Circuit's rule against international exhaustion should be retained in large measure, the "conditional sale" doctrine announced in *Mallinckrodt* should be overruled.

On the international issue, the government's amicus brief in the Court of Appeals relied heavily on the "territorial" nature of patent law, arguing that "*Jazz Photo Corp. v. International Trade Commission*, 264 F.3d 1094 (Fed. Cir. 2001), correctly recognized that patent law is territorial and that sales consummated under foreign law do not necessarily convey rights under United States patent laws." Brief of the United States as Amicus Curiae at 14. Thus, the government supported a rule under which the patentee is free to grant or to withhold U.S. patent rights when it makes a foreign sale: "When a U.S. patentee makes or authorizes such a foreign sale, the patentee may convey its authority to import the article into the United States, but it may withhold that authority if it wishes." *Id.*

On the domestic exhaustion issue, the government's earlier amicus brief argued that the Federal Circuit's *Mallinckrodt* decision must be overruled because the "the Supreme Court has held for over 150 years that the patent exhaustion doctrine bars a patentee from invoking the patent laws to enforce restrictions on the use or resale of a patented article after the first authorized sale of the article in the United States." *Id.* at 4. Note that this rule cuts off only the possibility of relief under *patent law*. As the government's brief explicitly notes elsewhere, the patent exhaustion doctrine says nothing about using other areas of law—e.g., state contract law or state property law—to enforce conditions placed upon the sale of goods.

3. Exhaustion as a Limit on Statutory Domain. One way to understand exhaustion is that the doctrine polices the outer limits or "domain" of the Patent Act so as to prevent patent law from interfering with other areas of commercial law, including not merely contract law, but also the law governing tortious interference with contract, security interests, personal property servitudes, etc. Under this view, the exhaustion doctrine rests not on a policy forbidding contractual conditions or property-based encumbrances on patented goods, but on a policy of making sure that any such conditions are enforced through those other areas of law.

Consider, for example, a patentee who wants to sell patented lasers both for (i) educational and research purposes and (ii) for other commercial purposes. The patentee wants to give a steep discount to those purchasing the lasers for educational and research purposes. (Such discounts are common in goods embodying intellectual property, and universities and their students are frequently the beneficiaries.) If the patentee sells a laser at \$100 for research and educational purposes but is also selling the same laser at \$1000 for commercial purposes, the patentee might worry that some educational purchasers could resell their lasers to commercial users and thereby undermine the higher price for commercial purposes. That worry is legitimate because the exhaustion doctrine holds that, once the laser is sold, the patentee cannot rely on patent infringement actions to control the downstream uses of the laser.

What can the patentee do to enforce the limitation-on-use condition in such circumstances? Quite a lot, it turns out. First, the patentee can impose a contractual condition on the purchaser that it use the laser only for research and educational purposes *and* that it not sell the laser to anyone else except those who would also be using the laser for research and

educational purposes. If the purchaser resells to a commercial entity, the patentee will have a contract remedy against the first purchaser (i.e., against the entity that purchased from the patentee, not against the commercial entity).

That's one remedy, but suppose that the patentee really wants to sue the downstream commercial entity that bought from the first purchaser? Commercial law provides several ways to do that too. For example, the patentee may be able to sue the downstream commercial purchaser for tortious interference with contract. Alternatively, the patentee could impose a security interest on the laser, and the security interest would allow suit against the downstream purchaser.

Each of those causes of action are subject to caveats and conditions—most importantly, the patentee is almost certainly going to have to prove that the downstream commercial entity had actual or constructive notice of the limitation on the laser's use. Such caveats and conditions are what's really at stake with the exhaustion doctrine because patent infringement actions are generally not subject to those limitations. But once those stakes are appreciated, the exhaustion doctrine begins to make a lot more sense, for the doctrine merely forces patentees, when they seek impose binding conditions on property that is being sold into commerce, to enforce those conditions using the same generally commercial law rules that governs all other sales of goods. This view is explained more fully in John F. Duffy and Richard M. Hynes, *Statutory Domain and the Commercial Law of Intellectual Property*, 102 Va. L. Rev. 1 (2016) (<http://ssrn.com/abstract=2599074>).