

# *Marvel, Cisco, and Teva: The U.S. Supreme Court Decides Three Patent Cases in 2015, Respecting Stare Decisis*

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## **I. Introduction**

Congress has the power “[t]o promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries.”<sup>1</sup>

The United States Supreme Court decided three patent cases in 2015: *Teva Pharmaceuticals USA, Inc. v. Sandoz*,<sup>2</sup> *Commil USA, LLC v. Cisco Systems, Inc.*,<sup>3</sup> and *Kimble v. Marvel Enterprises, Inc.*<sup>4</sup> In *Teva*, on January 20, 2015 the Supreme Court held, seven to two, that the appropriate standard of review of findings of fact in patent claim construction is the clear error standard, not a de novo review, vacating the decision of the Court of Appeals for the Federal Circuit and remanding.<sup>5</sup> In *Cisco*, on May 26, 2015 the Court held, seven to two, that there is no defense of a good faith belief in the patent’s invalidity to an allegation of induced patent infringement.<sup>6</sup> In *Marvel*,<sup>7</sup> the Supreme Court held, six to three, that a patent holder

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<sup>1</sup> U.S. CONST., art. I, § 8, cl. 8.  
<sup>2</sup> *Teva Pharm. USA, Inc. v. Sandoz, Inc.*, 135 S. Ct. 831 (2015). See *infra* notes 22 - 60 and accompanying text.  
<sup>3</sup> *Commil USA, LLC v. Cisco Sys., Inc.*, 135 S. Ct. 1920 (2015). See *infra* notes 61 – 98 and accompanying text.  
<sup>4</sup> *Kimble v. Marvel Entm’t, LLC*, 135 S. Ct. 2401 (2015). See *infra* notes 99 - 145 and accompanying text.  
<sup>5</sup> *Teva*, 135 S. Ct. at 835-43.  
<sup>6</sup> *Commil*, 135 S. Ct. at 1931.

may not charge patent royalties beyond the patent term, upholding the Court's 1964 precedent in *Brulotte v. Thys Co.*<sup>8</sup> In *Marvel*,<sup>9</sup> the Court of Appeals for the Ninth Circuit was affirmed, the only case of the three where an appellate court was affirmed.

The three patent decisions of 2015 were half of the record-setting six patent decisions by the Court in 2014,<sup>10</sup> but in the 2013-14 term, the appellate court, the Court of Appeals for the Federal Circuit in every case, was also affirmed only once.<sup>11</sup> In the patent cases decided by the Court in 2015, there were dissents in each case, while all six patent decisions in 2014 were unanimous.<sup>12</sup> In *Teva*,<sup>13</sup> Justices Thomas and Alito dissented. In *Cisco*,<sup>14</sup> Justice Scalia and Chief Justice Roberts dissented. In *Marvel*,<sup>15</sup> Justices Alito and Thomas and Chief Justice Roberts dissented.

The theme of the Supreme Court in the three patent decisions in 2015, if there is a theme, is that, in patent cases, the Court is respecting stare decisis. In *Teva*,<sup>16</sup> both the majority and the dissent relied heavily on the Court's decision in *Markman v. Westview Instruments, Inc.*<sup>17</sup> In *Cisco*,<sup>18</sup> the Court reaffirmed its decision in *Global-Tech Appliances v. SEB S.A.*<sup>19</sup> Finally, in *Marvel*,<sup>20</sup> the Court, adhering to principles of stare decisis, did not overrule its decision in *Brulotte*,<sup>21</sup> leaving any change in the law to Congress.

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<sup>7</sup> *Kimble*, 135 S. Ct. at 2405.

<sup>8</sup> *Brulotte v. Thys Co.*, 379 U.S. 29 (1964).

<sup>9</sup> *Kimble*, 135 S. Ct. at 2405-06.

<sup>10</sup> See generally Sue Ann Ganske, *The U.S. Supreme Court Decides Six Patent Cases in 2014, Culminating in Alice Corp. v. CLS Bank International*, 23 TEX. INTELL. PROP. L.J. 183 (2015).

<sup>11</sup> In *Medtronic, Inc. v. Mirowski Family Ventures, LLC*, 134 S. Ct. 843, 852 (2014), the Supreme Court unanimously reversed the Court of Appeals for the Federal Circuit, and remanded. In *Octane Fitness, LLC v. Icon Health & Fitness, Inc.*, 134 S. Ct. 1749, 1758 (2014), the Court unanimously reversed the Federal Circuit and remanded. In *Highmark Inc. v. Allcare Health Management System, Inc.*, 134 S. Ct. 1744, 1749 (2014), the Court unanimously vacated the Federal Circuit's decision and remanded. In *Limelight Networks, Inc. v. Akamai Technologies, Inc.*, 134 S. Ct. 2111, 2120 (2014), the Supreme Court unanimously reversed the Federal Circuit and remanded the case. In *Nautilus, Inc. v. Biosig Instruments, Inc.*, 134 S. Ct. 2120, 2131 (2014), the Supreme Court unanimously vacated the decision from the Court of Appeals for the Federal Circuit and remanded. In *Alice Corp. v. CLS Bank International*, 134 S. Ct. 2347, 2360 (2014), affirmed the Court of Appeals for the Federal Circuit unanimously.

<sup>12</sup> See *id.* (discussing cases).

<sup>13</sup> *Teva*, 135 S. Ct. at 844.

<sup>14</sup> *Commil*, 135 S. Ct. at 1931. Justice Breyer took no part in the consideration or decision in this case, so the vote was six to two.

<sup>15</sup> *Kimble*, 135 S. Ct. at 2415.

<sup>16</sup> *Teva*, 135 S. Ct. at 845 (citing *Markman v. Westview Instruments*, 517 U.S. 370 (1996)).

<sup>17</sup> *Infra* notes 43 and 51 and accompanying text.

<sup>18</sup> *Commil*, 135 S. Ct. at 1926 (discussing *Global-Tech Appliances, Inc. v. SEB S.A.*, 131 S. Ct. 2060 (2011)).

<sup>19</sup> *Infra* note 78 and accompanying text.

<sup>20</sup> *Kimble*, 135 S. Ct. at 2415.

<sup>21</sup> *Brulotte v. Thys Co.*, 379 U.S. 29 (1964).

This article reviews and analyzes the three Supreme Court patent decisions of 2015. This article concludes with implications of this series of important cases.

## II. Teva Pharmaceuticals USA, Inc. v. Sandoz, Inc.

The legal question in *Teva Pharmaceuticals USA, Inc. v. Sandoz, Inc.* is, what is the appropriate standard of review of a district court's findings of facts when conducting patent claim construction?<sup>22</sup> The U.S. Supreme Court ruled seven to two that the clear error standard should be used, not a *de novo* review, citing precedent and practical considerations.<sup>23</sup>

The plaintiff, Teva Pharmaceuticals,<sup>24</sup> holds patents for a multiple sclerosis pharmaceutical sold under the brand name Copaxone®. The patents specifically address an improved composition of copolymer-1 with a lower molecular weight to treat multiple sclerosis.<sup>25</sup> Prior to the expiration of Teva's patents, the defendant Sandoz, Incorporated<sup>26</sup> filed an Abbreviated New Drug Application under the Hatch-Waxman Act<sup>27</sup> to make and sell a generic version of Copaxone®. Teva filed suit against Sandoz for patent infringement concerning the claims of four Teva patents.<sup>28</sup> Sandoz counterclaimed, seeking a declaratory judgment of noninfringement, and the unenforceability and invalidity of nine of Teva's patents.<sup>29</sup> Sandoz alleged that the term "molecular weight" was indefinite, as there are different ways to ascertain average molecular weight.<sup>30</sup>

In 2011, the district court denied the defendant's motion for summary judgment on the indefiniteness allegation, finding that the claims could be construed.<sup>31</sup> Claim

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<sup>22</sup> *Teva*, 135 S. Ct. at 835.

<sup>23</sup> *Id.*

<sup>24</sup> See *Teva Pharm. USA, Inc. v. Sandoz, Inc.*, 876 F. Supp. 2d 295, 303 (S.D.N.Y. 2012) (explaining that the plaintiffs were a group of companies: Teva Pharmaceuticals USA, Inc., a Delaware corporation, Teva Pharmaceutical Industries, Ltd., an Israeli company, Teva Neuroscience Inc., a Delaware corporation, and Yeda Research and Development Co., an Israeli company (collectively, "Teva")).

<sup>25</sup> *Id.* at 305.

<sup>26</sup> *Id.* at 303-05 (clarifying that the remaining Sandoz defendants, after Teva voluntarily dismissed two other defendants, were Sandoz, Inc., a Colorado corporation, and Momenta, a Delaware corporation). Initially, two suits were filed, against Sandoz and Momenta, but these were combined, and collectively the defendants are called the "Sandoz" defendants. *Id.*

<sup>27</sup> See *id.* at 303 (citing 21 U.S.C. §§335, 360cc (2003), 35 U.S.C. § 156 (2002), 35 U.S.C. § 271 (2003)).

<sup>28</sup> See *id.* at 304 (explaining that Teva alleged that the claims of patents No. 7,199,098, No. 6,939, 539, No. 6, 054, 430, and No. 6,620, 847 were infringed by defendants Sandoz. Teva alleged that the claims of those four patents, and the claims of three additional patents, patents No. 5, 981, 584, No. 6,342,496, and No. 6,362, 161 were infringed by Momenta. These were consolidated by the court into the present case.).

<sup>29</sup> *Teva*, 876 F. Supp. 2d at 303. These nine patents have 78 claims, and included the seven that Teva alleged were infringed by Momenta, plus patents No. 5,800,808 and 6,048,898.

<sup>30</sup> *Teva Pharm., USA, Inc. v. Sandoz, Inc.*, 810 F. Supp. 2d 578, 587 (S.D. N.Y. 2011).

<sup>31</sup> *Id.* at 596.

construction and indefiniteness are each a matter of law,<sup>32</sup> and indefiniteness must be proven by clear and convincing evidence, according to the district court.<sup>33</sup>

The district court in 2012 held that Sandoz's proposed pharmaceutical product infringed on Teva's patent claims.<sup>34</sup> Further, none of the challenged claims were either invalid or unenforceable.<sup>35</sup> Sandoz appealed.

The Court of Appeals for the Federal Circuit in 2013 affirmed in part, reversed in part and remanded in part.<sup>36</sup> The appellate court affirmed that the patent claims which did not give an average molecular weight were not invalid or unenforceable.<sup>37</sup> Using a de novo review standard, the appellate court found that the claims that did specify an average molecular weight were indefinite, because those claims were ambiguous because the way to measure molecular weight was not specified, and there are multiple ways to calculate the average molecular weight.<sup>38</sup>

The U.S. Supreme Court agreed to hear the case,<sup>39</sup> to clarify which standard of review that the Federal Circuit must use when reviewing claim construction.<sup>40</sup>

On January 20, 2015, the U.S. Supreme Court held seven to two that the appellate court should use the clear error standard when reviewing factfinding in patent claim construction,<sup>41</sup> vacating the Federal Circuit's decision, and remanding.<sup>42</sup> Justice Breyer, writing for the majority, started his opinion by citing *Markman v. Westview Instruments, Inc.*,<sup>43</sup> which held that under the Seventh Amendment, a patent's construction, including claim construction, is solely in the province of the court, and not for the jury, even when the construction of a term of art has evidentiary underpinnings,<sup>44</sup> as in the *Teva* case. The Court in *Teva* held that the appellate court should regard the trial court's factfinding as correct unless clearly erroneous, as it does the factfinding in other cases under the Federal Rules of

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<sup>32</sup> *Id.* at 581.

<sup>33</sup> *Id.* at 582.

<sup>34</sup> *Teva*, 876 F. Supp. 2d at 363.

<sup>35</sup> *Id.* at 419.

<sup>36</sup> *Teva Pharm. USA, Inc. v. Sandoz, Inc.*, 723 F.3d 1363, 1375-76 (Fed. Cir. 2013).

<sup>37</sup> *Id.* at 1368-69.

<sup>38</sup> *Id.* at 1369.

<sup>39</sup> *Teva Pharm. USA, Inc. v. Sandoz, Inc.*, 134 S. Ct. 1761 (2014).

<sup>40</sup> *Teva*, 135 S. Ct. at 836.

<sup>41</sup> *Id.* at 840.

<sup>42</sup> *Id.* at 843.

<sup>43</sup> *Id.* at 835 (2015) (citing *Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 376, 391 (1996)). See generally, Timothy Le Duc, Note, *The Application of Collateral Estoppel to Markman Rulings: The Search for Logical and Effective Preclusion of Patent Claim Constructions*, 3 MINN. INTELL. PROP. REV. 297 (2002); William F. Lee and Anita K. Krug, *A Prescription for the Timing of Claim Construction Hearings*, 13 HARV. J. L. & TECH. 55 (1999); Sue (Ganske) Mota, *Markman v. Westview Instruments, Inc.: Patent Construction is Within the Exclusive Province of the Court Under the Seventh Amendment*, 3 RICH. J. L. & TECH. 3 (1997), available at <http://law.richmond.edu/jolt/v3i1/mota.html>.

<sup>44</sup> *Teva*, 135 S. Ct. at 835 (citing *Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 390 (1996)).

Civil Procedure,<sup>45</sup> and not under the de novo standard as an appellate court reviews questions of law.<sup>46</sup> The majority observed that it is practical to use the clearly erroneous standard of review as well, as the district court judge is more familiar with the case than an appellate panel.<sup>47</sup>

The Supreme Court also clarified how the Court of Appeals for the Federal Circuit is to apply the clearly erroneous standard upon appeal. If only evidence intrinsic to the patent, such as the claims, the specification, and the prosecution history, is being reviewed by the appeals court, then the de novo standard is used, as this is a determination of law. But when extrinsic evidence is reviewed, the “evidentiary underpinnings” are reviewed under the clearly erroneous standard, as in *Markman*.<sup>48</sup> The Court thus vacated and remanded.<sup>49</sup>

Justice Thomas, joined by Justice Alito, dissented. The dissent argued that since patent claim construction does not involve findings of fact, the de novo standard is appropriate.<sup>50</sup> Also citing *Markman*,<sup>51</sup> the dissent analogized a patent closer to a statute, which is construed as a matter of law, than other factfinding review.<sup>52</sup> The need for uniformity in appellate review of claim construction also favors a de novo review, according to the dissent.<sup>53</sup> Since the district court didn’t make findings of fact, according to the dissent, the appropriate standard was used by the appellate court.<sup>54</sup>

On remand, on June 18, 2015, using the appropriate standard of review, the Court of Appeals for the Federal Circuit affirmed that the claims which did not state an average molecular weight were not indefinite, but using the clear error standard of review, held that the claims which did were indefinite, reversing the district court,<sup>55</sup> and coming to the same ultimate conclusion it had previously reached using the de novo standard of review.<sup>56</sup> The appellate court cited both the 2015 Supreme Court decision in *Teva*,<sup>57</sup> as well as the 2014 decision in *Nautilus, Inc. v. Biosig*

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<sup>45</sup> *Id.* at 836 (citing Federal Rule of Civil Procedure 52(a)(6)).

<sup>46</sup> *Id.* at 835.

<sup>47</sup> *Id.* at 838.

<sup>48</sup> *Id.* at 841 (citing *Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 390 (1996)).

<sup>49</sup> *Id.* at 843.

<sup>50</sup> *Teva*, 135 S. Ct. at 844 (Thomas, J., dissenting).

<sup>51</sup> *Id.* at 845. (Thomas, J. dissenting) (citing *Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 381 (1996)).

<sup>52</sup> *Id.* at 849 (Thomas, J. dissenting) (citing the intellectual property clause of the Constitution, U.S. CONST. art. 1, § 1, cl. 8, *supra* note 1 and accompanying text, as an authority that patents are issued when statutory requirements are met). The dissent also opined that patents are less like contracts and deeds. *See id.* at 848.

<sup>53</sup> *Id.* at 851 (Thomas, J., dissenting).

<sup>54</sup> *Id.* at 853.

<sup>55</sup> *Teva Pharm. USA, Inc., v. Sandoz, Inc.* 789 F.3d 1335, 1338 (Fed. Cir. 2015). While the case was pending, all the patents whose claims recited an average molecular weight, except one, No. 5,800,808, expired. *See also supra* note 2.

<sup>56</sup> *Teva Pharm. USA, Inc. v. Sandoz, Inc.*, 123 F.3d 1363, 1376 (Fed. Cir. 2013).

<sup>57</sup> *Teva*, 135 S. Ct. at 836.

*Instruments, Inc.*,<sup>58</sup> which held that a patent fails for indefiniteness if its claims fail to disclose with reasonable certainty about the invention to someone skilled in the art.<sup>59</sup>

Thus, the Court in *Teva* clarified the standard of review for factual issues in patent claim construction is the clearly erroneous standard, and not de novo review.<sup>60</sup> In *Teva*, under either standard, the result is the same; the patent claim must define the method of calculating average molecular weight to avoid indefiniteness.

### III. *Commil USA, LLC v. Cisco Systems, Inc.*

In *Commil USA, LLC v. Cisco Systems, Inc.*, the question before the U.S. Supreme Court was “whether a defendant’s belief regarding patent validity is a defense to a claim of induced infringement.”<sup>61</sup> Justice Kennedy, writing for the majority, clearly answered that “[i]t is not,”<sup>62</sup> vacating the decision of the Court of Appeals for the Federal Circuit and remanding.<sup>63</sup>

Commil Ltd. is the assignee of a patent on an invention that relates to wireless communication systems (wi-fi) with a number of mobile devices, and short range base stations which allow the mobile units to pass from one base station to another.<sup>64</sup> This patent “relates to a method of providing faster and more reliable handoffs of mobile devices from one base station to another as a mobile device moves throughout a network area.”<sup>65</sup> Cisco Systems, Inc. designs and sells Internet Protocol based networking products and services.<sup>66</sup> Commil alleged that Cisco

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<sup>58</sup> *Nautilus Inc. v. Biosig Inc.*, 134 S. Ct. 2120, 2124 (2014).

<sup>59</sup> *Teva Pharm., USA, Inc. v. Sandoz, Inc.*, 789 F.3d 1335, 1338 (Fed. Cir. 2015).

<sup>60</sup> *Teva*, 135 S. Ct. at 836.

<sup>61</sup> *Commil*, 135 S. Ct. at 1928.

<sup>62</sup> *Id.*

<sup>63</sup> *Id.* at 1931.

<sup>64</sup> U.S. Pat. No. 6,430,395, available at <http://patft.uspto.gov/netacgi/nph-Parser?Sect1=PTO2&Sect2=HITOFF&p=1&u=%2Fnetathtml%2FPTO%2Fsearch-bool.html&r=1&f=G&l=50&co1=AND&d=PTXT&s1=6,430,395.PN.&OS=PN/6,430,395&RS=PN/6,430,395>, (Technical Field of the Invention). This patent specifically claims a wireless communication system with method of communicating between mobile units and at least two base stations, and at least one switch. There is a low-level communication protocol which has accurate time synchronization, and a high-level protocol which does not. *Id.* at claim 1. There is a claimed method of the switch routing data from the high-level protocols to the low level protocols, and vice versa. *Id.* at claim 4. There is a claimed method of having a mobile device including telephones, cell phones, personal data devices, computers, and laptops, among others, connect to the Internet by a central remote access server, among other devices. *Id.* at claim 6. Commil alleges that Cisco infringes, directly and indirectly, on claims 1, 4, and 6 of the ‘395 patent. *Commil USA, LLC v. Cisco Systems, Inc.*, 720 F.3d 1361, 1364 (Fed. Cir. 2013).

<sup>65</sup> *Commil USA, LLC v. Cisco Systems, Inc.*, 720 F.3d 1361, 1364 (Fed. Cir. 2013).

<sup>66</sup> *The World’s Most Valuable Brands*, FORBES, available at <http://www.forbes.com/companies/cisco-systems/>. Forbes ranks Cisco Systems the fifteenth most valuable brand (last visited Aug. 23, 2015). *Id.* Cisco calls itself “the worldwide leader in IT . . .” Cisco Overview, available at <http://newsroom.cisco.com/overview> (last visited Aug. 23, 2015).

committed patent infringement by making and using certain of Cisco's networking systems, and induced patent infringement by selling the infringing equipment.<sup>67</sup> In 2010, after a jury trial, Commil was awarded \$3.7 million in damages for patent infringement, but Cisco prevailed on the issue of induced infringement.<sup>68</sup> Commil requested and got a new trial on induced infringement and damages, because Commil alleged that Cisco's legal counsel made statements during trial which impaired Commil's ability to get a fair trial.<sup>69</sup> At the second trial in 2011, Commil was awarded \$63 million in damages, plus \$10.3 million in interest, and nearly \$18,000 in costs.<sup>70</sup> Cisco appealed.

The Court of Appeals for the Federal Circuit in 2013 affirmed the granting of the partial new trial,<sup>71</sup> but reversed and remanded on the jury instruction that Cisco committed induced infringement 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."<sup>72</sup> Cisco argued, and the appellate court agreed, that this interpretation prevented Cisco from defending with its good-faith belief in the invalidity of Commil's patent.<sup>73</sup> The dissent, while agreeing that a partial new trial was within the district court's discretion, disagreed with the majority's reversal on the good faith defense.<sup>74</sup> Commil requested a rehearing *en banc*, which was denied.<sup>75</sup> The U.S. Supreme Court, however, did grant certiorari to decide if a good-faith belief in patent infringement is a defense to induced infringement.<sup>76</sup>

The Supreme Court had to address a question of first impression, "whether knowledge of, or belief in, a patent's validity is required for induced infringement. . ."<sup>77</sup> The Court first reaffirmed its decision in *Global-Tech*

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<sup>67</sup> *Commil*, 135 S. Ct. at 1922.

<sup>68</sup> *Commil USA, LLC v. Cisco Systems, Inc.*, No. 2:07-CV 341, 2010 U.S. Dist. LEXIS 144014 at \*3-4 (E.D. Tex. Dec. 29, 2010).

<sup>69</sup> *Id.* at \*3. Cisco's counsel, when questioning a co-owner of Commil during trial, made a comment about not eating pork. *Id.* at \*6. Cisco's counsel apologized and an instruction was given by the judge. *Id.* Again, during closing statements, Cisco's counsel referred to the most important trial in history from the Bible, referring to the trial of Jesus. *Id.* at \*7. These comments were sufficient to grant a new trial on indirect infringement and damages. *Id.* at \*7-8.

<sup>70</sup> *Commil* 720 F. 3d at 1365. Obviously, the comments mentioned in the prior footnote were very expensive to Cisco, until the Supreme Court vacated and reversed on a different issue. *Commil*, 135 S. Ct. at 1942.

<sup>71</sup> *Id.* at 1372.

<sup>72</sup> *Id.* at 1366-67.

<sup>73</sup> *Id.* at 1367.

<sup>74</sup> *Id.* at 1373 (Newman, J., dissenting in part) (a good faith belief of patent invalidity is not a defense to patent infringement, according to the dissent).

<sup>75</sup> *Commil USA LLC v. Cisco Sys. Inc.*, 737 F.3d 699, 700 (Fed. Cir. 2013) (per curiam).

<sup>76</sup> *Commil USA LLC v. Cisco Sys., Inc.*, 135 S. Ct. 1920, 1926 (2015).

<sup>77</sup> *Id.* The Court first observed that infringement can be direct, induced, or contributory. *Id.* Direct infringement is a strict liability offense; no one else may make, use, or sell the patented invention during the patent term. *Id.* (citing 35 U.S.C. § 271(a)). Induced infringement requires knowledge of the patent, and that the induced acts constitute patent infringement. *Id.* (citing *Global-Tech Appliances, Inc. v. SEB S.A.*, 131 S. Ct. 2060, 2063 (2011)). Contributory infringement also

*Appliances, Inc. v. SEB S.A.*,<sup>78</sup> which held that induced infringement occurs if the defendant knew of the patent and knew that the induced acts constitute patent infringement.<sup>79</sup> Thus, according to the majority, Commil's argument that induced infringement requires only knowledge of the patent, fails, because *Global-Tech* also requires "proof the defendant knew the acts were infringing."<sup>80</sup>

Writing for the majority in an opinion issued May 26, 2015, Justice Kennedy addressed the question before the Court, and answered that the defendant's belief of patent invalidity is not a defense to induced patent infringement.<sup>81</sup> "When infringement is the issue, the validity of the patent is not the question to be confronted."<sup>82</sup> To allow the "new defense" of good-faith belief of patent invalidity would destroy the well-established presumption that a patent is presumed valid.<sup>83</sup> The Court observed that an accused infringer who believes that the patent in question is invalid has many options, including filing a declaratory judgment requesting that a federal court declare the patent invalid,<sup>84</sup> seeking an *inter partes* review at the Patent Trial and Appeal Board,<sup>85</sup> seeking a reexamination by the Patent and Trademark Office,<sup>86</sup> or raising the affirmative defense of patent invalidity.<sup>87</sup> As a practical matter, if such a defense was allowed, any accused inducer could raise a defense that they thought the patent was invalid.<sup>88</sup> Thus, the Supreme Court held seven to two that there is no defense to induced infringement of a belief in a patent's invalidity, and the Court of Appeals was vacated and the case remanded.<sup>89</sup>

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requires knowledge of the patent and its infringement. *Id.*

<sup>78</sup> *Global-Tech Appliances, Inc. v. SEB S.A.*, 131 S. Ct. 2060, 2068 (2011). See generally John David Evered, *Inducement of Patent Infringement after Global-Tech and Akamai, A Deadly Weapon Against New Enabling Technologies?* 23 TEX. INTELL. PROP. L. J. 43 (2014); Jeremy Adler, *See No Evil: How the Supreme Court's Decision in Global-Tech Appliances v. SEB Further Muddles the Intent Element of Induced Infringement*, 11 NW. J. TECH. & INTELL. PROP. 559 (2013).

<sup>79</sup> *Commil*, 135 S.Ct. at 1928.

<sup>80</sup> *Id.* at 1928 (citing *Global-Tek*, 131 S. Ct. 2060). See generally Sue Ann Mota, *The Times They Are A'Changin': Biliski v. Kappos, Global Tech v. SEB, Stanford v. Roche, and Microsoft v. I4I*, 16 J. TECH. L. & POL'Y 257 (2011).

<sup>81</sup> *Commil*, 135 S. Ct. at 1928. The issues of patent infringement and patent validity are in different parts of the Patent Act. *Id.* Justice Breyer took no part in the consideration or decision of this case.

<sup>82</sup> *Id.*

<sup>83</sup> *Id.* (citing 35 U.S.C. § 282(a)). It would also undermine a century of precedent. *Id.*

<sup>84</sup> *Id.* at 1929 (citing *MedImmune, Inc. v. Genentech, Inc.* 549 U.S. 118, 137 (2007)). See generally, Sue Ann Mota, *MedImmune, Microsoft, and KSR: The Supreme Court in 2007 Tips the Balance in Favor of Innovation in Patent Cases, and Thrice Reverses the Federal Circuit*, 11 MARQ. INTELL.PROP. L. R. 181 (2007).

<sup>85</sup> *Commil*, 135 S. Ct. at 1929 (citing 35 U.S.C. § 316); Aashish Kapadia, *Inter Partes Review: A New Paradigm in Patent Litigation*, 23 TEX. INTELL. PROP. L. J. 113 (2015).

<sup>86</sup> *Commil*, 135 S. Ct. at 1929 (citing 35 U.S.C. § 302).

<sup>87</sup> *Id.* (citing 35 U.S.C. § 282(b)(2)).

<sup>88</sup> *Id.*

<sup>89</sup> *Id.* at 1922.

After resolving the issue before the Court, in dicta, Justice Kennedy then addressed the recurring issue of patent non-practicing entities. “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.’”<sup>90</sup> These patent assertion entities, according to Justice Kennedy, “use [their] patents as a sword to go after defendants for money, even when their claims are frivolous.”<sup>91</sup> While there has been no such allegation of frivolity in this case, Justice Kennedy deemed it “necessary and proper to stress that district courts have the authority and responsibility to ensure frivolous cases are dissuaded,”<sup>92</sup> by such methods as sanctioning attorneys who bring such cases<sup>93</sup> and awarding attorney’s fees to prevailing parties in exceptional cases.<sup>94</sup>

Justice Scalia, joined by Chief Justice Roberts, dissented on the issue of whether a good faith belief in the patent’s invalidity is a defense to an allegation of induced patent infringement.<sup>95</sup> Justice Scalia concludes that the majority’s decision “increases the *in terrorem* power of patent trolls,”<sup>96</sup> using the term “patent troll” for the first time in a Supreme Court decision.<sup>97</sup> Scalia observes that Justice Kennedy apparently was aware of that result in the last part of the majority decision, thus encouraging district courts to use measures to combat patent trolls,<sup>98</sup> short of a defense of good faith belief in patent invalidity.

#### IV. **Kimble v. Marvel Entertainment, LLC**

The legal issue in *Kimble v. Marvel Entertainment, LLC*<sup>99</sup> was whether the Court should reaffirm or overturn the holding in *Brulotte v. Thys Co.*,<sup>100</sup> which held that patent royalties may not continue after the patent term has expired. On June 22, 2015, the Supreme Court held, six to three, that *stare decisis* leads the Court to

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<sup>90</sup> *Id.* at 1930 (citing *eBay Inc. v. MercExchange, LLC*, 547 U.S.388, 396 (2006)) (Kennedy, J., concurring). *See generally*, Sue Ann Mota, *EBay v. MercExchange: Traditional Four Factor Test for Injunctive Relief Applies in Patent Cases, According to the Supreme Court*, 40 AKRON L. REV. 529 (2007).

<sup>91</sup> *Commil*, 135 S. Ct. at 1930.

<sup>92</sup> *Id.*

<sup>93</sup> *Id.* (citing Fed. R. Civ. P. 11).

<sup>94</sup> *Commil*, 135 S. Ct. at 1930-1931 (citing 35 U.S.C. § 285)).

<sup>95</sup> *Commil*, 135 S. Ct. at 1931 (Scalia, J., dissenting).

<sup>96</sup> *Id.*

<sup>97</sup> Jeff John Roberts, *FORTUNE Supreme Court Says “Patent Troll” for First Time in Cisco Ruling*, available at <http://fortune.com/2015/05/26/scotus-cisco-patent-trolls/> (last visited August 23, 2015).

<sup>98</sup> *Commil*, 135 S. Ct. at 1931.

<sup>99</sup> *Kimble v. Marvel Entm’t.*, 135 S. Ct. 2401, 2405 (2015).

<sup>100</sup> *Brulotte v. Thys Co.*, 379 U.S. 29, 33-34 (1964). *See generally* Michael Koenig, *Patent Royalties Extending Beyond Patent Expiration: An Illogical Ban From Brulotte to Sheiber*, 2013 DUKE L. & TECH. REV. 5 (2003).

continue to use *Brulotte's* holding, and that any change needs to come from Congress, not from the Court.<sup>101</sup>

In 1990, Kimble obtained a patent for a toy web-shooting glove which allows one to mimic Spiderman by shooting foam string from a glove.<sup>102</sup> In late 1990, Kimble met with the President of Marvel Enterprises, Inc.'s predecessor, Toy Biz,<sup>103</sup> and the President verbally told Kimble that the company would pay royalties if it used Kimble's ideas. The company later told Kimble that there was no interest in the toy but, nonetheless, the company started making a similar Spider Man toy called a Web Blaster, so Kimble sued for patent infringement and breach of contract in 1997.<sup>104</sup> The district court granted Marvel's motion for summary judgment on the patent claim, and Kimble won on the contract claim; both parties appealed.<sup>105</sup> In 2001, the parties reached a settlement agreement, under which Marvel would purchase the patent for over \$500,000 plus 3% of net product sales, with no expiration date.<sup>106</sup>

In 2006, Marvel entered into a licensing contract with Hasbro, under which Hasbro could make certain role-playing toys, and in 2007, Hasbro began making versions of the Web Blaster toy.<sup>107</sup> Hasbro paid Marvel 10% royalties on net sales, and Marvel paid the plaintiffs the 3% royalties,<sup>108</sup> "and then Marvel stumbled across *Brulotte*."<sup>109</sup> In 2008, Marvel told Kimble that full royalties were not owed on certain items such as Web Blaster packaged with other items, and recalculated lower royalties dating back to 2007 which Marvel claimed they had overpaid.<sup>110</sup> In 2008, Kimble sued again, alleging breach of the settlement agreement. Marvel counterclaimed, stating that it was not obligated to pay royalties after the expiration of the patent.<sup>111</sup> Citing *Brulotte v. Thys Co.*,<sup>112</sup> the magistrate recommended to the district court that Marvel was entitled to summary judgment and did not have to pay royalties after the expiration of the patent.<sup>113</sup> The settlement agreement stated that

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<sup>101</sup> *Kimble*, 135 S. Ct. at 2409.

<sup>102</sup> *Id.* (U.S. Pat. No. 5,072,856). The abstract states that this toy makes it possible for a player to act like a spider person by shooting webs from the palms of his or her hand. *Id.* This patent expired around May 25, 2010. *Kimble v. Marvel Enter. Inc.*, 727 F.3d 856, 57-858 (9th Cir. 2013).

<sup>103</sup> *Kimble v. Marvel Enter. Inc.*, 727 F.3d 856, 867 n.2 (9th Cir. 2013) (explaining that Toy Biz, Inc. was the company Kimble met with initially and which was originally sued in 1997). Marvel Enterprises, Inc. acquired Toy Biz. Marvel Enterprises, Inc. was the predecessor of Marvel Entertainment, LLC (hereinafter Marvel).

<sup>104</sup> *Id.* at 858.

<sup>105</sup> *Kimble v. Marvel Enter., Inc.*, 692 F. Supp. 2d 1156, 1164 (D. Ariz. 2009) (the district court awarded damages of a 3.5% royalty of net past, present, and future product sales, excluding refill royalties).

<sup>106</sup> *Id.*

<sup>107</sup> *Id.*

<sup>108</sup> *Kimble*, 692 F. Supp. 2d at 1158.

<sup>109</sup> *Kimble*, 135 S. Ct. at 2406 ("In negotiating the settlement, neither side was aware of *Brulotte*.").

<sup>110</sup> *Kimble*, 692 F. Supp. 2d at 1166.

<sup>111</sup> *Kimble*, 727 F.3d at 859.

<sup>112</sup> *Brulotte*, 379 U.S. at 32.

<sup>113</sup> *Kimble*, 692 F. Supp. 2d at 1174.

the only rights being transferred were patent rights, and did not have provisions for non-patent rights.<sup>114</sup>

The Court of Appeals for the Ninth Circuit reviewed the district court's decision de novo, and affirmed.<sup>115</sup> Reviewing and applying *Brulotte*,<sup>116</sup> the appeals court did acknowledge that "our application of the *Brulotte* rule in this case arguably deprives Kimble of part of the benefit of his bargain based upon a technical detail that both parties regarded as insignificant at the time of the agreement."<sup>117</sup> But, the agreement had one royalty rate, and did not have a discount rate post-patent for any non-patent rights, and thus royalties must cease after the patent expires.<sup>118</sup>

The Supreme Court granted certiorari in 2014 on whether to overrule *Brulotte*,<sup>119</sup> and held that under *stare decisis*, it should not.<sup>120</sup> Justice Kagan stated that "[p]atents endow their holders with certain superpowers, but only for a limited time."<sup>121</sup> She observed that the Court also protected the patent end date in cases including *Brulotte*,<sup>122</sup> which held an agreement unlawful *per se* when it called for patent royalties after the patent term ended. Justice Kagan observed that "[r]especting *stare decisis* means sticking to some wrong decisions."<sup>123</sup> *Brulotte* is not "unworkable," according to the Court,<sup>124</sup> and Congress could statutorily fix this problem, but it's not the Court's role.<sup>125</sup> While antitrust precedents have been overturned,<sup>126</sup> *Kimble v. Marvel Entertainment, LLC* is a patent case, according to the majority.<sup>127</sup> The Court views antitrust case precedents under the Sherman Act less strictly as economic analysis evolves under antitrust law.<sup>128</sup> Thus, the Court of Appeals for the Ninth Circuit was affirmed.<sup>129</sup>

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<sup>114</sup> *Id.* at 1168.

<sup>115</sup> *Kimble* 727 F.3d at 867.

<sup>116</sup> *Brulotte*, 379 U.S. at 29.

<sup>117</sup> *Kimble* 727 F.3d at 866.

<sup>118</sup> *Id.* at 864.

<sup>119</sup> *Kimble v. Marvel Entm't., LLC*, 135 S. Ct. 781 (2014).

<sup>120</sup> *Kimble*, 135 S. Ct. at 2406.

<sup>121</sup> *Id.* This author also speculates whether Justice Kagan herself was endowed with certain superpowers while writing this opinion alluding to Spider Man.

<sup>122</sup> *Id.* at 2407-08, (explaining *Brulotte v. Thys Co.*, 379 U.S. 29 (1964)).

<sup>123</sup> *Id.* at 2409.

<sup>124</sup> *Id.* at 2411.

<sup>125</sup> *Id.* at 2412-2413.

<sup>126</sup> *Kimble*, 135 S. Ct. at 2412-2416 (citing *Leegin Creative Leather Products, Inc. v. PSKS, Inc.*, 551 U.S. 877 (2007) and *Illinois Tool Works v. Independent Ink, Inc.*, 547 U.S. 28 (2006)). See generally, Randal C. Picker, Twombly, Leegin, and the Reshaping of Antitrust, 2007 SUP. CT. REV. 161 (2007); Sue Mota, *Antitrust, Limited: The Supreme Court Reigns in Antitrust Enforcement in 2007*, 7 FLA. ST. BUS. REV. 121, 126-29 (2007). See generally, Sue Mota, *The Untwining of Patent Law and Antitrust: No Presumption of Market Power in Patent Tying Cases in Illinois Tool Works v. Independent Ink*, 40 SUFFOLK U. L. REV. 58 (2006).

<sup>127</sup> See *Kimble*, 135 S. Ct. at 2412-13.

<sup>128</sup> *Id.* at 2413.

<sup>129</sup> *Id.* at 2415.

Justice Alito dissented, joined by Chief Justice Roberts and Justice Thomas.<sup>130</sup> The dissent states that the Patent Act is silent on post-expiration royalties.<sup>131</sup> Thus, *Brulotte* did not involve statutory interpretation, but rather was a “bald act of policymaking,”<sup>132</sup> whose “only virtue is that we decided it,”<sup>133</sup> according to the dissent. *Brulotte* is “an antitrust decision masquerading as a patent case,”<sup>134</sup> and should be overturned, according to the dissent.<sup>135</sup>

There are several solutions to the *Kimble*<sup>136</sup> problem of royalties post-patent expiration. Congress could amend the Patent Act to allow royalties past the patent term, as suggested by Justice Kagan.<sup>137</sup> In the meantime, those negotiating such patent royalties need to be aware that without proper wording, royalties based entirely on patent rights expire at the end of the patent term.<sup>138</sup> Justice Kagan points out options in a patent license to avoid having royalties end with the patent’s term. Pre-expiration royalties can be spread out into the post-expiration time, but this needs to be explicitly stated in the contract.<sup>139</sup> Post-expiration royalties could be for other rights, such as trademarks or copyrights or trade secrets, but again, the agreement must be explicit that the post-patent expiration royalties are for other rights and not for patent royalties after the patented invention is in the public domain.<sup>140</sup> Post-patent term royalties can also be for other business arrangements, such as joint ventures, just not for patent royalties, according to Justice Kagan.<sup>141</sup> But, patent holders must be aware of *Kimble v. Marvel Entertainment, LLC*,<sup>142</sup> and *Brulotte v. Thys Co.*,<sup>143</sup> and how to negotiate post-patent expiration royalties which will stand scrutiny.

## V. Conclusion

The U.S. Supreme Court in the 2014-15 term decided three important patent cases in *Teva*,<sup>144</sup> *Cisco*,<sup>145</sup> and *Marvel*,<sup>146</sup> vacating decisions from the Court of Appeals for the Federal Circuit in both cases before the Court, but affirming the Court of Appeals for the Ninth Circuit.

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<sup>130</sup> *Id.*

<sup>131</sup> *Id.*

<sup>132</sup> *Kimble*, 135 S. Ct. at 2415.

<sup>133</sup> *Id.* at 2417.

<sup>134</sup> *Kimble*, 135 S. Ct. at 2418.

<sup>135</sup> *Id.* at 2419.

<sup>136</sup> *Kimble v. Marvel Entm’t, LLC*, 135 S. Ct. 2401 (2015).

<sup>137</sup> *Id.* at 2409-10.

<sup>138</sup> *See id.* at 2403. In *Kimble*, neither party knew of this, and fortunately for Marvel, they discovered *Brulotte* before the expiration of *Kimble*’s patent.

<sup>139</sup> *Id.* at 2408.

<sup>140</sup> *Id.*

<sup>141</sup> *Id.* at 2408.

<sup>142</sup> *Kimble v. Marvel Entm’t, LLC*, 135 S. Ct. 2401 (2015).

<sup>143</sup> *Brulotte v. Thys Co.*, 379 U.S. 29 (1964).

<sup>144</sup> *Teva Pharm. USA, Inc. v. Sandoz, Inc.*, 135 S. Ct. 831 (2015).

<sup>145</sup> *Commil USA, LLC v. Cisco Sys., Inc.*, 135 S. Ct. 1920 (2015).

<sup>146</sup> *Kimble v. Marvel Entm’t, LLC*, 135 S. Ct. 2401 (2015).

Perhaps the theme of this term is the importance of precedent in patent law. Both the majority and the dissent in *Teva* cited *Markman v. Westview Instruments, Inc.*<sup>147</sup> The Court in *Cisco* reaffirmed *Global-Tech Appliances, Inc. v. SEB S.A.*<sup>148</sup> The Court in *Marvel* upheld the precedent of *Brulotte v. Thys Co.*<sup>149</sup> to the detriment of the plaintiff Kimble, even though neither party was aware of the ramifications at the time of their contract.<sup>150</sup> The dissent in *Marvel* would have overturned *Brulotte*, as it was deemed bad law not based on the Patent Act.<sup>151</sup> Congress could fix the problem in *Marvel*<sup>152</sup> of extending royalties beyond the patent term, if it so agreed between the parties, but in the meantime, patent licensors need to be aware that purely patent royalties end at the end of the patent term.<sup>153</sup>

Possibly a second theme of the Court in patent cases in 2015 is the justices giving suggestions on how to deal with ramifications of two of the holdings. Justice Kagan in *Marvel* made suggestions for extending royalties beyond the patent term, such as explicitly stating in an agreement that patent royalties are reduced over the patent term and spread out over a longer term, or basing royalties post-patent expiration on other forms of intellectual property used, such as copyrights and trademarks, or making post-patent royalty payments based upon some other business venture.<sup>154</sup> Justice Kennedy in *Cisco* encouraged district courts to dissuade frivolous patent cases by such methods as sanctioning attorneys who bring such cases and, citing *Octane Fitness, LLC v. ICON Health and Fitness, Inc.*, decided by the Court in 2014, awarding attorney's fees to the prevailing party.<sup>155</sup>

The year 2015, like 2014, was not a good year for patent assertion entities at the United States Supreme Court, with the term "patent troll" actually used by Justice Scalia in the dissent in *Cisco*.<sup>156</sup> Justice Scalia, also citing *Octane Fitness*, would have allowed the defense of a good faith belief in patent invalidity,<sup>157</sup> which would have had the effect of even further deterring patent trolls. While *Cisco* did not reign in patent trolls as explicitly as the Court did in 2014 in *Octane Fitness*.<sup>158</sup> and *Highmark Inc. v. Allcare Health Management System, Inc.*,<sup>159</sup> which made attorney's fees easier to recover in patent infringement suits, and in *Alice*

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<sup>147</sup> *Teva v. Sandoz* 135 S. Ct. 831, 835; *id.* at 845 (Thomas, J., dissenting); *see supra* note 43 and accompanying text.

<sup>148</sup> *Global-Tech Appliances, Inc. v. SEB S.A.*, 131 S. Ct. 2060, 2068 (2011); *Cisco*, 135 S. Ct. at 1928; *see supra* note 78 and accompanying text.

<sup>149</sup> *Brulotte v. Thys Co.*, 379 U.S. 29 (1964).

<sup>150</sup> *Kimble*, 135 S.Ct. at 2406.

<sup>151</sup> *See supra* notes 126-137 and accompanying text.

<sup>152</sup> *Kimble v. Marvel Entm't, LLC*, 135 S. Ct. 2401 (2015).

<sup>153</sup> *Id.* at 2405.

<sup>154</sup> *Id.* at 2408.

<sup>155</sup> *Commil USA, LLC v. Cisco Sys., Inc.*, 135 S. Ct. 1920, 1923 (2015); *see supra* notes 90 – 94 and accompanying text.

<sup>156</sup> *Commil USA, LLC v. Cisco Sys., Inc.*, 135 S. Ct. at 11931 (Scalia, J., dissenting).

<sup>157</sup> *Id.*

<sup>158</sup> *Octane Fitness, LLC v. ICON Health & Fitness*, 134 S. Ct. 1749 (2014).

<sup>159</sup> *Highmark Inc. v. Allcare Health Management Sys., Inc.*, 134 S. Ct. 1744 (2014).

*Corporation v. CLS Bank International*,<sup>160</sup> where the Supreme Court held that “mere recitation of a generic computer cannot transform a patent-ineligible abstract idea into a patent-eligible invention,” the Court in 2015 did again send a strong message on how to deal with patent trolls.

In all, in this author’s opinion, the Court sent a clear, although not unanimous message in the area of patent law in the 2014-15 term, that precedent is important in patent law, and that Congress is the appropriate branch to enact or change law in this area, to promote the progress of science and useful arts.<sup>161</sup>

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<sup>160</sup> *Alice Corp. v. CLS Bank Int’l*, 134 S. Ct. 2347, 2358 (2014).

<sup>161</sup> U.S. CONST., art. I, § 8, cl. 8.