



## JUDICIAL PATENT REFORM?: THE SUPREME COURT COULD HAVE MAJOR IMPACT WITH FIVE CASES THIS TERM

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This LEGAL BACKGROUNDER will discuss the patent law-related cases before the U.S. Supreme Court during its October 2013 Term.

This Term, the Supreme Court will decide five cases that affect various areas of patent law. The Court will address the standard for infringement when steps of a claimed method are performed by different independent entities. It will also address the test for awarding attorneys' fees in exceptional cases and the standard of review for such awards. Regarding patent claims, the Court will consider the test for patent eligible subject matter and the test for indefiniteness of a patent claim.

The five cases this Term reflect the Supreme Court's ongoing willingness to review decisions from the U.S. Court of Appeals for the Federal Circuit, which has exclusive appellate jurisdiction over patent cases. The Court has already decided to review another Federal Circuit case, *Teva Pharmaceuticals USA, Inc. v. Sandoz, Inc.* (13-854), in its next term. The case implicates the Federal Circuit's standard of review in patent claim construction.

Each High Court patent decision can change the way that industry innovates and protects inventions. They may also impact the ability of non-practicing or patent-assertion entities, colloquially known as "patent trolls," to assert their patents. The Court's review of these patent cases occurs in the context of a larger public policy debate over whether such patent assertion chills innovation in the United States.

### Divided Infringement

***Limelight Networks, Inc. v. Akamai Techs., Inc. (12-786).*** In this case, which will be argued on April 30, 2014, the Court will decide whether an accused patent infringer may be held liable for inducing patent infringement even though direct infringement has not occurred. In particular, the Justices will revisit the Federal Circuit's *en banc* decision holding that Limelight could be liable under 35 U.S.C. § 271(b) for inducing infringement if (1) it knew of Akamai's patent; (2) it performed all but one of the steps of the method; (3) it induced its customers to perform the final step of the claimed method; and (4) the customers performed that step. This theory of indirect patent infringement has become known as divided infringement, where different steps of a claimed method are performed by different independent entities. In contrast, direct infringement traditionally occurs when all steps of the claimed

method are performed by a single entity or through another acting under the entity's direction or control. The Court is expected to decide whether divided infringement is a basis for patent infringement or whether § 271(b) requires direct infringement.

With the proliferation of e-commerce and computer network patents, the theory of divided infringement may significantly expand the scope of activities considered for patent infringement. The potentially expanded scope of liability under divided infringement has garnered the interest of technology companies already under intense financial pressure from patent litigation. An affirmance of the Federal Circuit's approach would likely benefit litigious non-practicing entities.

### Fee Shifting in "Exceptional Cases"

*Octane Fitness, LLC v. Icon Health & Fitness, Inc. (12-1184)* and *Highmark Inc. v. Allcare Health Mgmt. Systems, Inc. (12-1163)*. The Supreme Court heard arguments in this pair of cases on February 26, 2014. Both cases involve the award of attorneys' fees to prevailing accused patent infringers in "exceptional cases" under 35 U.S.C. § 285. The provision provides that "[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party." Broadening a district court's discretion to award attorneys' fees and narrowing the standard of appellate review may have a significant deterrent effect on objectively baseless patent litigation and litigation misconduct.

Because they generally do not manufacture or sell actual products, non-practicing entities are rarely subject to counterclaims for antitrust, unfair competition, or patent infringement. A lower threshold for courts' award of attorneys' fees under § 285 would represent a significant threat to their business model, since the threat of paying those fees is the only credible financial risk non-practicing entities face.

The Federal Circuit has articulated that for an "exceptional case" where "[a]bsent misconduct in [the] conduct of the litigation or in securing the patent, sanctions 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." *Brooks Furniture Manufacturing, Inc. v. Dutailier International, Inc.*, 393 F.3d 1378 (Fed. Cir. 2005).

In *Octane Fitness*, the Supreme Court will review that standard. Octane Fitness had prevailed on summary judgment but was denied attorneys' fees. The company argued that the "objectively baseless" standard the district court applied in its exceptional case determination was overly restrictive and argued for a lower standard. In particular, Octane Fitness argued that the ease with which both the district court and the Federal Circuit awarded and affirmed summary judgment for non-infringement strongly reflects the objectively baseless nature of Icon Health's claims. Octane Fitness also stressed Icon Health's failure to practice the technology at issue for almost ten years. At oral argument, the Justices probed the parties as to what type of litigation might qualify as "exceptional" within the context of the statute and whether an exceptional case might depend on the totality of the circumstances.

In *Highmark*, the Supreme Court is reviewing the level of deference an appellate court should give to a district court's finding of an exceptional case under § 285. In this case, Highmark prevailed on summary judgment and the district court found that the case was exceptional. The Federal Circuit reversed the exceptional-case finding by applying a *de novo* standard without deference to the lower court's findings. Highmark asserts that the exceptional-case finding should be reviewed under an abuse-

of-discretion standard because it is a mixed issue of fact and law.

## Patentable Subject Matter

**Alice Corporation Pty. Ltd. v. CLS Bank International (13-298).** The Supreme Court heard the oral argument in this case on March 31, 2014 to determine whether claims directed to computer-implemented inventions are patent eligible. *Alice Corporation* is the latest in a line of cases where the Justices have addressed patentable subject matter under 35 U.S.C. § 101. Those cases include *Bilski v. Kappos*, 130 S. Ct. 3218 (2010), *Mayo Collaborative Services v. Prometheus Laboratories, Inc.*, 132 S. Ct. 1289 (2012), and *Ass'n for Molecular Pathology v. Myriad Genetics, Inc.*, 133 S. Ct. 2107 (2013). The Court has long held that laws of nature, physical phenomena, and abstract ideas are exceptions to patentable subject matter under § 101 and not eligible for patent protection. In *Bilski*, the Court addressed an exclusionary test for determining an abstract idea.

Alice's patents are directed to a system, a method, and media for performing operations to reduce "settlement risk" or risk associated with transactions involving currencies and financial instruments. Alice essentially argued that patent claims which require a computer—both process claims that require use of a computer and machine claims that include a computer—and which may produce a useful result, are patent-eligible. A deeply divided *en banc* Federal Circuit affirmed the district court's decision that all of the claims are directed to abstract ideas which are not eligible for patent protection. The Federal Circuit decision resulted in several opinions with different approaches for determining patent eligible subject matter and provided little clarity on the issue.

At oral argument, the Justices probed whether merely implementing an abstract idea on a computer through, for instance, computer software, is sufficient for an invention to meet the threshold of § 101 to be patent-eligible subject matter. In contrast, the Supreme Court held in *Bilski* that a method of hedging risk in commodities trading, which was not claimed as being performed by a computer, was an abstract idea and not patent-eligible. Although the Justices appeared inclined to provide further clarification on the definition of an abstract idea, they were also sensitive to the impact of which their decision might have on software patents and the software industry, generally. CLS Bank's counsel countered by pointing out that of 22,000 infringement litigations in the last four fiscal years, the Federal Circuit has decided only twelve cases regarding computer implementation.

Patents directed to computer-implemented methods, such as e-commerce inventions, hang in the balance of the Supreme Court's decision. Although such methods are not expected to be ruled invalid *per se*, the Court is likely to clarify the test, previously discussed in *Bilski*, for determining whether a claimed invention is directed to patent-eligible subject matter. A narrowing of what constitutes patent-eligible subject matter will likely reduce the number of suits filed by non-practicing entities.

## Indefiniteness

**Nautilus, Inc. v. Biosig Instruments, Inc. (13-369).** Nautilus sought review in this case to clarify the standard for definiteness of patent claims and the statutory requirement that a patent is presumed valid. On one hand, 35 U.S.C. § 112 require a patent claim to "particularly point[ ] out and distinctly clai[m]" the invention. On the other hand, 35 U.S.C. § 282 mandates that "[a] patent shall be presumed valid."

Biosig holds a patent for an exercise equipment heart monitor which increases heart rate measurement accuracy by removing noise from muscle movement. In particular, the patent claims recite a “spaced relationship” between electrodes. Nautilus challenged the validity of the patent by asserting that the patent claims were indefinite because the patent did not define the meaning of “spaced relationship” and, therefore, did not particularly point out and distinctly claim the invention. A divided panel of the Federal Circuit held that the claims were not indefinite because they are “amenable to construction” and are not “insolubly ambiguous.” Perhaps reflecting the extent to which alleged infringers struggle to determine the scope of patent claims, the majority and concurring opinions disagreed on how the term “spaced relationship” should be construed.

The Justices will hear arguments on April 28, 2014 about the Federal Circuit’s test for indefiniteness when patent claims may have several reasonable interpretations. Additionally, the Court is expected to review how a patent’s statutory presumption of validity should affect the test for indefiniteness of the claims. Claim construction, or how claims are interpreted, is an issue in nearly every patent suit. The Court’s decision may significantly impact how the U.S. Patent and Trademark Office examines patent applications for indefiniteness and how validity of patent claims are challenged in court. For non-practicing entities, the Supreme Court’s decision may affect their ability to assert patents with unclear claim language.