

SUPREME IP: THE U.S. SUPREME COURT WEIGHS IN ON IP RIGHTS



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Starting with *Medtronic, Inc.*

v. Mirowski Family Ventures, LLC — analyzed in Banner & Witcoff's Spring 2014 Newsletter — the U.S. Supreme Court considered a number of intellectual property cases in its 2013–14 term. From patent-eligible subject matter to the copyright implications of new technology, the Court's opinions provide guidance on a wide variety of topics, each of which is analyzed below. In addition, as of September 2, 2014, the Supreme Court has granted certiorari in another three cases. These are also introduced below.

PATENT CASES

Alice Corp. v. CLS Bank International: Patent-Eligible Subject Matter

One of this term's most-watched intellectual property cases was *Alice Corp. v. CLS Bank International*, where the Court reviewed the standard for determining patent-eligible subject matter under 35 U.S.C. § 101. The Court examined judicially created

risk that only one party to an agreed-upon financial exchange will satisfy its obligation, . . . using a computer system as a third-party intermediary." The Court held that the claims at issue in *Alice* were "directed to an abstract idea," and thus not patentable.

The Court elicited a two-step framework to determine whether claims are directed to an abstract idea. In future cases, when a district court addresses this issue, the court must first "determine whether the claims at issue are directed to [a] patent-ineligible concept" — here, an abstract idea. Second, the court must "search for an 'inventive concept' — *i.e.*, an element or combination of elements that is 'sufficient to ensure that the patent in practice amounts to significantly more than a patent upon the [ineligible concept] itself.'"

To determine whether a concept is an abstract idea, the court "must distinguish between patents that claim the 'building blocks' of human ingenuity and those that integrate the building blocks into something more." While the Court acknowledged that "[a]t some level, 'all inventions

Since 2013, the Supreme Court has either heard or granted certiorari in 7 patent cases, 2 copyright cases, and 4 trademark/Lanham Act cases.

exceptions to statutory text; specifically, that "laws of nature, natural phenomena, and abstract ideas are not patentable."

In *Alice*, the claims were directed to a "scheme for mitigating 'settlement risk' — *i.e.*, the

embody, use, reflect, rest upon, or apply . . . abstract ideas," patent claims that "risk disproportionately tying up the use of the underlying' ideas" are excluded as abstract ideas.

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To determine whether a patent applicant has sufficiently “transform[ed] a claimed abstract idea into a patent-eligible application,” the court looks for an “inventive step.” Specifically, “[a] claim that recites an abstract idea must include ‘additional features’ to ensure ‘that the claim is more than a drafting effort designed to monopolize the abstract idea.’” For example, the Court reinforced the notion that the claim must “do more than simply state the [abstract idea] while adding the words ‘apply it.’”

In analyzing the claims at issue, the Court did not “labor to delimit the precise contours of the ‘abstract ideas’ category in this case,” but simply held that “there is no meaningful distinction between the concept of risk hedging in *Bilski v. Kappos*” — which claimed “a longstanding commercial practice” — and the claims in *Alice*. Further, in searching for an “inventive step,” the Court held that the claims covered “‘well-understood, routine, conventional activities’ previously known to the industry. In short, each step does no more than require a generic computer to perform generic computer functions.” Therefore, the claims were not patent eligible under Section 101. In the Court’s view, the claims — if allowed to be patented — would have prevented anyone else from performing any form of computerized intermediated settlement.

***Nautilus, Inc. v. Biosig Instruments, Inc.*: Definiteness Requirement of 35 U.S.C. § 112, ¶ 2**

Section 112 of the Patent Act requires a patent specification to “conclude with one or more claims particularly pointing out and distinctly claiming the subject matter which the applicant regards as [the] invention.” In *Nautilus*, the Court examined “the proper reading of the statute’s clarity and precision demand.” The claims before the Court were

directed to a heart-rate monitor used with exercise equipment. The Court did not express an opinion on the validity of the claims, but held 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.” The Court refers to this as the “reasonable-certainty standard.” The Court rejected the Federal Circuit’s previous indefiniteness standard, which considered a claim indefinite “only when it is ‘not amenable to construction’ or ‘insolubly ambiguous.’”

The Court explained several aspects of the Section 112, ¶ 2 inquiry. First, the Court evaluates definiteness “from the perspective of someone skilled in the relevant art.” Second, “claims are to be read in light of the patent’s specification and prosecution history.” Third, the Court measures definiteness “at the time the patent was filed.”

Interestingly, the Court did not reconcile how claim definiteness can be evaluated both in light of the specification *and prosecution history* and *at the time the patent was filed*. Additionally, the Court acknowledged that “applicants face powerful incentives to inject ambiguity into their claims,” and explained that “the patent drafter is in the best position to resolve” ambiguities in claims.

Thus, in *Nautilus*, the Court attempted to achieve a “delicate balance” by establishing a “reasonable-certainty standard” for evaluating definiteness. However, the Court did not provide an illustrative example for how to apply its new standard, instead remanding to the Federal Circuit to reconsider the disputed claims under this new “reasonable certainty” standard.

Limelight Networks, Inc. v. Akamai Technologies, Inc.: Divided Infringement

In *Limelight*, the Court held that a defendant is not 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). The Court reversed an *en banc* panel of the Federal Circuit, which had held that § 271(b) liability for induced infringement “arises when a defendant carries out some steps constituting a method patent and encourages others to carry out the remaining steps.”

Limelight Networks operates a content-delivery network, “and carries out several of the steps claimed in” a patent for which Akamai is the exclusive licensee. “[B]ut the record is undisputed that Limelight does not” perform all the steps of the claimed method.

The Court relied heavily on the Federal Circuit’s 2008 decision in *Muniauction, Inc. v. Thomson Corp.*, where the Federal Circuit “started from ‘the proposition that direct infringement requires a single party to perform every step of a claimed method.’” The Court did not consider whether that proposition was correct — the question presented being induced infringement under § 271(b), not direct infringement under § 271(a). Instead, the Court “assum[ed] without deciding that the Federal Circuit’s holding in *Muniauction* is correct,” and held that “there has simply been no infringement of [a] method” when “the performance of all the patent’s steps is not attributable to any one person.” In other words, there can be no induced infringement absent a showing of direct infringement.

This holding parallels the Court’s approach to contributory infringement in *Deepsouth Packing Co. v. Laitram Corp.* There the Court

“rejected the possibility of contributory infringement” where “a manufacturer produced components of a patented machine and then exported those components overseas to be assembled by its foreign customers.” Because the machines were never assembled in the United States, there was never direct infringement, and the manufacturer could not be liable for contributory infringement. “Similarly, in this case, performance of all the claimed steps cannot be attributed to a single person, so direct infringement never occurred.” The Court therefore held that Limelight was not liable for induced infringement.

Octane Fitness, LLC v. Icon Health & Fitness, Inc., and Highmark Inc. v. Allcare Health Management System, Inc.: Standard for Awarding Attorneys’ Fees in Patent-Infringement Cases

Section 285 of the Patent Act provides that “[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party.” In *Octane Fitness, LLC v. Icon Health & Fitness, Inc.*, the Court considered the proper approach for evaluating a request for fees under § 285. The district court, after granting Octane Fitness’s motion for summary judgment of non-infringement, denied Octane’s request for fees under the approach established in 2005 by the Federal Circuit in *Brooks Furniture Mfg., Inc. v. Dutilleul Int’l*. The *Brooks Furniture* approach limited the award of attorney fees in patent cases to “when there has been some material inappropriate conduct” or when the litigation is both “brought in subjective bad faith” and “objectively baseless.” The Federal Circuit affirmed both orders.

On review, the Court unanimously rejected the *Brooks Furniture* approach. The Court explained that the *Brooks Furniture* [MORE ▶](#)

approach is “unduly rigid, and impermissibly encumbers the statutory grant of discretion to district courts.” Instead, the analysis “begins and ends with the text of § 285 . . . This text is patently clear.” The only constraint on district courts’ discretion to award attorney fees is that they do so only in “exceptional cases.” An exceptional case is “simply one that stands out from others with respect to the substantive strength of a party’s litigating position . . . or the unreasonable manner in which the case was litigated.” Thus, a district court “may determine whether a case is ‘exceptional’ in the case-by-base exercise of their discretion, considering the totality of the circumstances.” Further, according to the Court, this approach is not new, but rather a return to the standard used from 1946 to 2005.

Additionally, the Court rejected *Brooks Furniture’s* clear-and-convincing-evidence standard of proof required for patent litigants to prove entitlement to fees. Section 285 does not require a “specific evidentiary burden, much less such a high one.” Instead, the correct standard of proof is a preponderance of the evidence, “because it ‘allows both parties to share the risk of error in roughly equal fashion.’”

The Court therefore reversed the Federal Circuit, and remanded the case for review using the correct standard.

On remand, the Federal Circuit itself remanded the *Octane Fitness* case back to the district court. In doing so, the Federal Circuit reminded the district court that it is not *obligated* to award fees if a case is determined to be exceptional, but rather may choose to do so at its discretion.

In *Highmark Inc. v. Allcare Health Management System, Inc.*, argued together with *Octane Fitness*, the Court considered the standard for reviewing a district court’s award of fees under § 285.

Citing the Court’s focus on the text of § 285 in *Octane Fitness*, the Court held that “[b]ecause § 285 commits the determination of whether a case is ‘exceptional’ to the discretion of the district court, that decision is to be reviewed on appeal for abuse of discretion.” Therefore, the Court reversed and remanded the case to the Federal Circuit for review of the district court’s fee grant using an abuse-of-discretion standard.

COPYRIGHT CASES

American Broadcasting Companies, Inc. v. Aereo, Inc.: Meaning of “Public Performance” Under Copyright Act

Another closely watched intellectual property case this term was *American Broadcasting Companies, Inc. v. Aereo, Inc.* A 6–3 majority of the Court held that Aereo infringed the exclusive right to “perform [a] copyrighted work publicly” when “selling its subscribers a technologically complex service that allows them to watch television programs over the Internet at about the same time as the programs are broadcast over the air.”

Aereo’s system includes thousands of tiny antennas in a central location, which individual users may use to watch over-the-air broadcast content. When a user selects content to watch, a single antenna is allocated to that user — and only that user — and the content received by that antenna is transmitted over the Internet to that user. The user can thus watch over-the-air content over the Internet nearly simultaneously with the over-the-air broadcast.

The Court analyzed two questions in determining whether Aereo infringed the right to perform a copyrighted work publicly. First, “does Aereo ‘perform’ at all? And second, if so, does Aereo do so ‘publicly?’”

In analyzing whether Aereo performs, the Court admitted that “the language of the Act does not clearly indicate when an entity ‘perform[s]’ . . . and when it merely supplies equipment that allows others to do so.” The Court analogized Aereo’s technology to cable TV (CATV) technology of 40 years ago. CATV providers “placed antennas on hills above” cities, then “amplified and modulated the signals” to rebroadcast them to customers. In 1968 and 1974, the Court held that CATV systems did not infringe the copyrights of the content they rebroadcast; “[v]iewers do not become performers by using ‘amplifying equipment’ and a CATV provider should not be treated differently for providing viewers the same equipment.” But in 1976, Congress amended the Copyright Act “to reject the Court’s holdings . . . [and] to bring the activities of cable systems within the scope of the Copyright Act.”

Even though the Court acknowledged a “particular difference between Aereo’s system” and CATV systems — that only “in automatic response to the subscriber’s request does Aereo’s system activate an antenna and begin to transmit the requested program” — the Court “d[id] not see how this single difference, invisible to subscriber and broadcaster alike, could transform a system that is for all practical purposes a traditional cable system into” one that does not “perform” within the scope of the Copyright Act.

In analyzing whether Aereo performs “publicly,” the Court similarly ignored “technological differences” between Aereo’s system and traditional cable systems. In the Court’s view, “Congress would as much have intended to protect a copyright holder from the unlicensed activities of Aereo as from those of cable companies.” Thus, the Court interpreted “the public” to apply to “a group of individuals acting as ordinary members

of the public who pay primarily to watch broadcast television programs.”

Even though the Court held that Aereo infringed the right of public performance, the Court stressed that “we do not believe that our limited holding” will “discourage or control the emergence or use of different kinds of technologies.” The Court specifically noted that “questions involving cloud computing, remote storage DVRs, and other novel issues not before the Court” are not covered by its holding. Justice Scalia authored a strong dissent.

It remains to be seen if “Congress will take a fresh look at this new technology” and “decid[e] whether the Copyright Act needs an upgrade.” But for now, the Court limited its holding to Aereo’s system and others like it, thus hoping to avoid disturbing future investments in and development of other new technologies.

***Petrella v. Metro-Goldwyn-Mayer, Inc.:* Applicability of Laches to Copyright- Infringement Claims**

In *Petrella*, a 6–3 majority of the Court held that laches cannot be invoked as a bar to a copyright-infringement claim for damages brought within the Copyright Act’s three-year statute of limitations. The author’s daughter, Paula Petrella, inherited the copyright to a 1963 screenplay on which the 1980 MGM film *Raging Bull* was based. She sued MGM for infringement in 2009. Petrella “sought no relief for conduct occurring outside” the three-year limitations period, but the district court and the Ninth Circuit nevertheless invoked laches as a bar to relief, because Petrella *could have* brought her claim earlier.

Congress established “a right to sue for infringement occurring no more than three years back from the time of suit,” [MORE ►](#) and “[t]hat regime leaves ‘little

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place' for a doctrine that would further limit the timeliness of a copyright owner's suit." The Court did, however, recognize that "the consequences of a delay in commencing suit may be of sufficient magnitude" to limit the amount or type of relief that may be rewarded. For example, in *Chirco v. Crosswinds Communities, Inc.*, the owner of a copyrighted architectural design was not "entitled to an order mandating destruction of" a housing development in which more than 168 units were built, with 109 units occupied. That relief would be inequitable for two reasons: "the plaintiffs knew of the defendants' construction plans before the defendants broke ground, yet failed to take readily available measures to stop the project; and the requested" destruction would be "an unjust hardship' upon the defendants and innocent third parties."

Petrella's claim did not present the kind of extraordinary circumstances that would bar some types of relief at the outset. "Allowing Petrella's suit to go forward will put at risk only a fraction of the income MGM has earned during [the past three decades] and will work no unjust hardship on innocent third parties." The Court noted, however, that if Petrella ultimately prevails, the district court "may take account of her delay in commencing suit" when determining

appropriate damages. But her delay cannot completely "foreclos[e] the possibility of any form of relief."

CASES FOR 2014-2015 TERM

While not hearing a single trademark case in its previous term, the Court has already granted certiorari of two trademark cases for its next term, plus an additional patent case:

- *Teva Pharmaceuticals USA, Inc. v. Sandoz, Inc.*: The Court will consider the appropriate standard for reviewing a district court's factual findings in patent claim construction.
- *B&B Hardware v. Hargis Industries*: The Court will consider whether the Trademark Trial and Appeal Board's finding of likelihood of confusion precludes a respondent from relitigating that issue in infringement litigation.
- *Hana Financial v. Hana Bank*: The Court will consider whether the jury or the court determines whether use of an older trademark may be tacked to a newer one.

As always, Banner & Witcoff attorneys will watch these and other cases before the Court, and provide updates and analysis as more information becomes available. ■



JOSEPH M. POTENZA ELECTED ABA-IPL REPRESENTATIVE TO THE ABA HOUSE OF DELEGATES

Joseph M. Potenza was elected as the American Bar Association Section of Intellectual Property Law (ABA-IPL) Representative to the ABA House of Delegates during the organization's Annual Meeting in Boston, Aug. 6-12, 2014. He will serve a three-year term, expiring in 2017.