
INTELLECTUAL PROPERTY

A LOOK BACK AT THE SUPREME COURT'S 2013-14 TERM—IS MORE “REFORM” NEEDED?

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Note from the Editor:

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- Charlene M. Morrow & Brian Lahti, *Highmark and Octane Helped, But Legislation on Fee Shifting Still Necessary*, FENWICK & WEST LLP BLOG (October 31, 2014), available at <https://www.fenwick.com/publications/pages/highmark-and-octane-helped-but-legislation-on-fee-shifting-still-necessary.aspx>.
- Andrew Williams, *Patent Litigation Reform -- Will the Outcome of the Mid-Term Elections Matter, and Is Reform Still Necessary?*, PATENT DOCS (October 30, 2014), available at <http://www.patentdocs.org/2014/10/patent-litigation-reform-will-the-outcome-of-the-mid-term-elections-matter-and-is-reform-still-neces.html>.
- Daniel Nazer, *Big Patent Reform Wins in Court, Defeat (For Now) in Congress: 2014 in Review*, ELECTRONIC FRONTIER FOUNDATION DEEPLINKS BLOG, (December 25, 2014), available at <https://www.eff.org/deeplinks/2014/12/2014-review-big-patent-reform-wins-court-defeat-now-congress>.
- Lisa Larrimore Ouellette, *Supreme Court Patent Cases*, WRITTEN DESCRIPTION, available at <http://writtendescription.blogspot.com/p/patents-scotus.html>.

The Supreme Court under Chief Justice Roberts has shaped patent law like no other Court in recent memory. Since 2010, the Court has issued eighteen patent law decisions compared to only eleven decisions in the entire prior decade and eight in the 1990s.¹

Indeed, in its October 2013 term alone, the Court issued more patent law decisions than in any term since the current version of the Patent Act was enacted in 1952, and possibly much longer.² These decisions began with *Medtronic*, which addressed the burden of proof in declaratory judgment actions,³ and culminated in the much-discussed *Alice* decision, which tackled the patentability of abstract ideas under Patent Act section 101.⁴ Topping off this string of important decisions, in January 2015, the Court issued its opinion in *Teva*, which addressed the standard of appellate review for claim construction decisions.⁵ Strikingly, in this partisan era, every one of these decisions was unanimous.

A year has passed since this series of decisions, affording time to district courts and the Federal Circuit Court of Appeals to apply the Supreme Court's new guidance in a variety of cases. At the same time, patent reform is again at the top of Congress'

agenda, with comprehensive bills pending in both the House of Representatives and the Senate. The pending bills, however, do not necessarily take into account how the Roberts Court is revising patent law on its own. Some argue that comprehensive “reform” is still needed, but there is a good argument that modest action will suffice—such as simply addressing the current venue statute that allows a disproportionate number of patent cases to be filed in only a handful of courts such as the United States District Court for the Eastern District of Texas.

This article reviews how the leading Supreme Court decisions from the October 2013 Term are playing out in practice to help readers decide what, if any, further reforms are truly needed.

I. ATTORNEYS' FEES

The Supreme Court issued decisions in *Octane* and *Highmark* on the same day, both of which govern the award of attorneys' fees under 35 U.S.C. § 285. Under section 285, a district court may award attorneys' fees to a prevailing party in “exceptional” cases.

In *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, the Court held 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.”⁶ District courts going forward will look at the totality of the circumstances and award fees based on a preponderance of the evidence.⁷ In adopting this standard, the Court rejected the prior standard, which required district courts to find by clear and convincing evidence that the suit was objectively baseless and brought or litigated with subjective bad faith, deeming it “too rigid” and not consistent with the statute.⁸

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understand what was being described.³²

Whether or not the heightened standard for claim definiteness mandated by the Supreme Court is a game-changer may depend on the facts of individual cases, whether the Federal Circuit is true to the Supreme Court's wishes, and whether the Supreme Court opts to keep the Federal Circuit in check more than once.³³

Moreover, in *Williamson v. Citrix Online, LLC*, the Federal Circuit breathed new life into the indefiniteness defense as applied to means-plus-function claims.³⁴ In *Williamson*, the court lowered the bar for finding that a claim is written in means-plus-function format under 35 U.S.C. § 112(f) when that claim does not use "means" language. And once a defendant persuades a district court that section 112(f) applies, then the patent holder must point to sufficient structure in the specification to satisfy section 112(f) as well as the holding in *Nautilus*.³⁵

The pending patent bills do not address the definiteness requirement or take the *Nautilus* decision into account. But time will tell whether *Nautilus* presents a viable new defense against broad and ambiguous patent claims that can be raised and ruled on at claim construction without waiting for summary judgment.³⁶ To the extent decisions like *Nautilus* and *Alice*, combined with the patent office review proceedings created just a few years ago by the America Invents Act, may be causing a downturn in patent suits and lowering the settlement demands of non-practicing entities in the cases that are filed, further revisions to the Patent Act seem less necessary and should be weighed carefully so as not to devalue patent rights so far as to depress innovation.

III. ABSTRACT IDEAS

The Supreme Court ended its 2013 Term with *Alice Corp. Pty. Ltd v. CLS Bank Int'l*.³⁷ In *Alice*, the Court reiterated that abstract ideas are ineligible for patent protection under 35 U.S.C. § 101. While this decision only reaffirmed the Court's prior holding in *Mayo Collaborative Servs. v. Prometheus Labs., Inc.*,³⁸ it has received the most attention of the patent decisions handed down by the Court last year. Many suits brought by non-practicing entities are based on patents claiming methods of doing business. The Court instructed that mere computerization of an already known method of doing business is not patentable, and parties have cited that instruction hundreds of times already.

Subsequent district court and appellate decisions suggest that the Supreme Court's message has been heard loud and clear. Hardly a week goes by without patents being found invalid for having claimed unpatentable subject matter under *Alice*. From the *Alice* decision in June 2014 to the beginning of 2015, the Federal Circuit had already invalidated patents under *Alice* in eight out of nine cases.³⁹ The district courts found patents invalid under *Alice* in 29 out of 40 cases in the same period.⁴⁰

The Federal Circuit invalidated a patent under *Alice* less than one month after *Alice* was decided.⁴¹ Next, in *Planet Bingo, LLC v. VKGS LLC*, the court invalidated patents covering computerized bingo games.⁴² In *BuySAFE, Inc. v. Google, Inc.*, the court invalidated a method of providing secure online sales, saying it was an "easy call" in light of *Alice*.⁴³ In *Ultramercial, Inc. v. Hulu, LLC*, the court invalidated the abstract idea of showing

an advertisement before delivering content via the Internet.⁴⁴ In *Content Extraction & Transmission, LLC v. Wells Fargo Bank, N.A.*, the court invalidated a method of using a scanner in an ATM to recognize the amount written on a check.⁴⁵ The court found that the patent covered nothing more than the abstract idea of collecting data, recognizing certain data, and storing the data in computer memory. In *Internet Patents Corp. v. Active Network, Inc.*, the court affirmed the invalidity of a patent covering the idea of retaining information in the navigation of online forms.⁴⁶ The court also rejected the plaintiff's argument that additional limitations in the patent's dependent claims saved its patent because those dependent claims did not add any inventive concept.⁴⁷ Finally, in *Intellectual Ventures I LLC v. Capital One, N.A.*, the court rejected several online banking patents that generally involve the abstract ideas of budgeting and customizing web page information based on information known about the user.⁴⁸

The only outlier is *DDR Holdings, LLC v. Hotels.com, L.P.*⁴⁹ In *DDR*, the court upheld the validity of a patent addressing problems in website design. The key to this decision appears to be the court's finding that the claimed invention solved an Internet-centric problem rather than simply applying a computer or the Internet to a common business practice.⁵⁰

The *timing* of *Alice* rulings in the district courts is even more striking. In *Ultramercial*, Judge Mayer issued a strongly-worded concurring opinion encouraging evaluation of patentability "at the very outset" of a case and even questioning whether there is any presumption of validity at that stage.⁵¹ More than 60 district courts have cited Judge Mayer's concurring opinion for this proposition, and courts have granted more than two-thirds of all Rule 12 motions to dismiss based on *Alice*.⁵² The Federal Circuit endorsed early evaluation of patentability in *OIP Techs., Inc. v. Amazon.com, Inc.*, where it affirmed a dismissal under *Alice* on a Rule 12 motion for judgment on the pleadings.⁵³

As with *Nautilus*, the pending patent bills do not address the *Alice* decision. Moreover, they do not appear to recognize the significant pro-defense impact that *Alice* is having on patent litigation as demonstrated above. At the same time, certain courts and judges are reluctant to grant *Alice* motions, especially prior to claim construction. For example, Judge Rodney Gilstrap in the Eastern District of Texas issued a new standing order in June 2015 directing parties to seek permission to file motions to dismiss under Rule 12 based on *Alice* before his court will even consider such motions.⁵⁴ Therefore, patent reform provisions that would require district courts to entertain Rule 12 motions or stay cases pending Rule 12 motions could supply another valuable tool to defendants facing "shakedown" litigation based on faulty patents.

Such provisions, however, cannot force courts to grant motions based on *Alice*. Indeed, reluctant judges will remain free to reject *Alice* challenges until after claim construction, or in all but the most egregious cases. Recent data from district courts across the country illustrate this challenge. As of this writing, courts nationwide have granted 71% of the 76 motions raising *Alice*. In the Northern District of California, the grant rate is 82%. In the District of Delaware, the grant rate is 90%. In contrast, the grant rate in the Eastern District of Texas is only

27%.⁵⁵ Unsurprisingly, given these numbers, more than 20% of all patent cases in the United States are filed in the Eastern District of Texas.⁵⁶

Addressing this issue, the Innovation Act pending in the House of Representatives includes modified venue language. Section 3(g) of the Innovation Act would modify 28 U.S.C. § 1400(b) and limit patent cases to (i) the defendant's principal place of business, (ii) the defendant's place of incorporation, (iii) where the defendant has committed an act of infringement and has a regular and established physical facility, (iv) where the defendant has consented to be sued, (v) where the claimed invention was conceived or reduced to practice, (vi) where significant research and development of the claimed invention occurred at a regular and established physical facility, or (vii) where a party has a regular and established physical facility that such party controls and had engaged in management of significant research and development of a claimed invention, manufactured a product embodying a claimed invention, or implemented a manufacturing process embodying a claimed invention.⁵⁷ This change in the law would cause patent cases to be more evenly distributed throughout the country, thereby limiting any one court's ability to shape patent law by virtue of its unilateral application of decisions like *Alice*.⁵⁸

IV. STANDARD OF REVIEW

The newest of these leading Supreme Court decisions is *Teva Pharms. USA v. Sandoz, Inc.*⁵⁹ In *Teva*, the Court rejected the de novo standard of review on appeal for all claim construction decisions. In its place, the Court held that only claim constructions based on intrinsic evidence are subject to de novo review. Claim construction decisions based on extrinsic evidence—that is, factual findings—are subject to the more deferential clearly erroneous standard of review.

Since, the *Teva* ruling, the Federal Circuit has addressed claim construction by first examining whether the district court relied on anything beyond the intrinsic record when addressing claim construction.⁶⁰ In *Shire Dev. v. Watson Pharms.*, the court specifically addressed a case in which the district court heard expert testimony during the claim construction hearing.⁶¹ The Federal Circuit held that the more deferential standard of review outlined in *Teva* is not triggered any time a district court receives extrinsic evidence. Instead, the district court must make factual findings based on extrinsic evidence that underlie its claim constructions to trigger the more deferential review.⁶²

Thus, the lesson for litigants and district courts post-*Teva* appears to be this: If parties want greater deference on appeal, they should (i) introduce extrinsic evidence in support of their claim construction arguments, and (ii) do their best to ensure that the district court rests at least part of its claim construction on that extrinsic evidence.

Neither of the leading patent reform bills addresses the claim construction standard of review any further.

CONCLUSION

The Supreme Court's October 2013 Term is having a dramatic impact on patent litigation. During that term, the Court issued a record number of decisions affecting patent law, and at least some of those holdings are frequently influencing

decisions in the lower courts. Some commentators will take issue with the Court's decisions, and others will debate whether these decisions diminish the need for further so-called "patent reform." Regardless, all can agree that our patent laws are not applied uniformly nationwide. Something is amiss when a decision as influential as *Alice* leads to invalidity findings in 90% of cases in one district but only 27% of cases in another, or when certain district courts flatly state that they do not award attorneys' fees notwithstanding the *Octane* decision. This problem is compounded by local patent rules and standing orders that further attempt to circumvent *Alice* or otherwise balkanize patent litigation practice.⁶³ Additional revisions to the Patent Act should be made with great care, as decisions handed down during the Supreme Court's October 2013 Term (along with reforms already implemented in the America Invents Act) are having a profound impact on patent litigation. Nevertheless, modest changes may be in order, such as revising venue statutes to ensure that no one district court can exercise undue influence over patent law.

Endnotes

1 Dennis Crouch, *Supreme Court Patent Cases Per Decade*, PATENTLY-O (July 30, 2014), available at <http://patentlyo.com/patent/2014/07/supreme-patent-decade.html>.

2 Roger Parloff, *The Supreme Court Is Sending Sharp Messages on Patents*, FORTUNE (June 20, 2014), available at <http://fortune.com/2014/06/20/the-supreme-court-is-sending-sharp-messages-on-patents/> (citing research by Prof. Tim Holbrook, Associate Dean of Emory University School of Law).

3 134 S. Ct. 843 (2014).

4 134 S. Ct. 2347 (2014)

5 574 U. S. ____ (2015).

6 134 S. Ct. 1749, 1756 (2014).

7 *Id.* at 1758.

8 *Id.* at 1755.

9 134 S. Ct. 1744, 1747 (2014).

10 A Comparison of Pre-*Octane* and Post-*Octane* District Court Decisions on Motions for Attorneys' Fees under Section 285, FEDERAL CIRCUIT BAR ASSOCIATION (April 13, 2015), available at <http://ipwatchdog.com/materials/FCBA-Fee-Shifting-Paper.pdf>.

11 *Id.*

12 *Id.*

13 782 F.3d 1371 (Fed. Cir. 2015).

14 *Id.* at 1372.

15 *Id.* at 1374-75.

16 581 F. App'x 877 (Fed. Cir. 2014).

17 *Id.* at 881-82.

18 *SFA Sys., LLC v. Newegg Inc.*, No. 2014-1712, 2015 U.S. App. LEXIS 11892 (Fed. Cir. July 10, 2015).

19 *Id.* at *17.

- 20 No. 2013-1649, 2015 U.S. App. LEXIS 3082 (Fed. Cir. Feb. 24, 2015).
- 21 Ryan Davis, *Fed. Circ. Rebuke to Fuel Heated Disputes on Attys' Fees*, LAW 360 (April 20, 2015), available at <http://www.law360.com/articles/644745/fed-circ-rebuke-to-fuel-heated-disputes-on-attys-fees>.
- 22 Innovation Act at § 3(b)(1), H.R. 9.
- 23 PATENT Act at § 7(b), S. 1137.
- 24 134 S. Ct. 2120 (2014).
- 25 *Id.* at 2123.
- 26 *Id.* at 2128-29.
- 27 766 F.3d 1364, 1369-70 (Fed. Cir. 2014).
- 28 *Id.* at 1371-74.
- 29 *Biosig Instruments, Inc. v. Nautilus, Inc.*, 783 F.3d 1374 (Fed. Cir. 2015).
- 30 *Id.* at 1379.
- 31 779 F.3d 1360 (Fed. Cir. 2015).
- 32 *Id.* at 1365-68.
- 33 It has done so in the area of subject matter patentability. See the discussion of *Alice* below.
- 34 792 F.3d 1339 (Fed. Cir. 2015).
- 35 See *Medical Instrumentation & Diagnostics. Corp. v. Elekta AB*, 344 F.3d 1205, 1211 (Fed. Cir. 2003).
- 36 See *Praxair, Inc. v. ATMI, Inc.*, 543 F.3d 1306, 1319 (Fed. Cir. 2008).
- 37 134 S. Ct. 2347 (2014).
- 38 132 S. Ct. 1289 (2012).
- 39 Robert Sachs, *A Survey of Patent Invalidations Since Alice*, LAW 360 (January 13, 2015), available at <http://www.law360.com/articles/604235/a-survey-of-patent-invalidations-since-alice>. See also Robert Sachs, *#AliceStorm: The Summertime Blues Continue*, BILSKIBLOG (August 29, 2015), available at <http://www.bilskiblog.com/blog/2015/08/alicestorm-summertime-blues-continue.html>.
- 40 *Id.*
- 41 *Digitech Image Techs., LLC v. Elecs. for Imaging, Inc.*, 758 F.3d 1344 (Fed. Cir. 2014) (holding that a patent covering methods of reducing distortion in digital image processing merely covered a process of organizing information through mathematical correlations).
- 42 576 F. App'x 1005 (Fed. Cir. 2014).
- 43 765 F.3d 1350 (Fed. Cir. 2014).
- 44 772 F.3d 709 (Fed. Cir. 2014).
- 45 776 F.3d 1343 (Fed. Cir. 2014).
- 46 790 F.3d 1343 (Fed. Cir. 2015).
- 47 *Id.*
- 48 792 F. 3d 1363 (Fed. Cir. 2015).
- 49 773 F.3d 1245 (Fed. Cir. 2014).
- 50 *Id.* at 1257.
- 51 772 F.3d at 717-23.
- 52 Michael Wilburn, *Pretrial Dismissals and Judgments in Post-Alice Courts*, LAW360 (April 23, 2015), available at <http://www.law360.com/articles/642593/pretrial-dismissals-and-judgments-in-post-alice-courts>.
- 53 788 F.3d 1359, 1364 (Fed. Cir. 2015)(Mayer, J., again concurring and writing that statutory eligibility should be “exposed at the point of minimum expenditure of time and money by the parties and the courts”).
- 54 See Sample Docket Control Order for Patent Cases as revised by Gilstrap, J. (June 2015).
- 55 *TXED Rejects 73% of 35 USC § 101 Pretrial Challenges in 2015*, DOCKET REPORT (Aug. 10, 2015), available at <http://docketreport.blogspot.com/2015/08/txed-rejects-73-of-35-usc-101-pretrial.html>.
- 56 Darryl Towell, *A Snapshot of Patent Litigation in 2014*, LAW360 (Feb. 18, 2015), available at <http://www.law360.com/articles/622097/a-snapshot-of-patent-litigation-in-2014>.
- 57 Innovation Act at § 3(g), H.R. 9, available at http://judiciary.house.gov/_cache/files/57d3eba8-347d-439b-adb8-b384210312eb/goodla-028-xml--managers-substitute---june-9-2015.pdf
- 58 In 1948, section 1400 was added to Title 28, adding specific venue language for patent and copyright suits. In most federal civil actions, venue is proper for an entity-defendant in any court that has personal jurisdiction over that entity. 28 U.S.C. § 1391(c). Section 1400 is more narrowly drafted and, on its face, limits venue to a defendant's residence. The Federal Circuit, however, interpreted section 1400 as a complement to section 1391(c), holding that an entity “resides” everywhere that it is subject to personal jurisdiction. See, e.g., *VE Holding Corp. v. Johnson Gas Appliance Co.*, 917 F.2d 1574 (Fed. Cir. 1990). See also Prof. Tun-Jen Chiang, *The Problematic Origins of Nationwide Patent Venue*, PATENTLYO (September 21, 2012). Simply reversing that holding could be all that is needed to limit the influence of any one district court over patent cases.
- 59 135 S. Ct. 831 (2015). *Teva* was decided in the Supreme Court's October 2014 Term, but a discussion of the case is included because it is potentially important and reflects the Roberts Court's continued trend of addressing important patent law issues.
- 60 See, e.g., *Vasudevan Software, Inc. v. Microstrategy, Inc.*, 782 F.3d 671 (Fed. Cir. 2015).
- 61 787 F.3d 1359 (Fed. Cir. 2015).
- 62 *Id.* at 1368.
- 63 Arthur Gollwitzer III, *Local Patent Rules—Certainty and Efficiency or a Crazy Quilt of Substantive Law*, 13 ENGAGE I (March 2012).

