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SUPREME COURT AIDING FIGHT AGAINST PATENT TROLLS: *ALICE*, *NAUTILUS, LIMELIGHT*, *OCTANE FITNESS* AND *HIGHMARK*

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The Supreme Court may be making up for where Congress has left off. Legislation designed to curb abuse from patent assertion entities, or so-called patent trolls, has been shelved indefinitely. The legislation passed the House and was supported by President Obama. Unfortunately, the **legislation was removed** from the Senate Judiciary Committee on May 21, 2014 because of a lack of agreement on how to "combat the scourge of patent trolls on our economy without burdening the companies and universities who rely on the patent system." However, the Supreme Court unanimously decided five patent cases this term that appear to have a substantial impact on patent trolls: *Alice Corp. v. CLS Bank Int'l*; *Biosig v. Nautilus*; *Akamai v. Limelight*; *Octane Fitness v. Icon Health*;and *Highmark v. Allcare*. In particular, *Alice* limits subject matter eligibility; *Nautilus* limits indefiniteness; *Limelight* limits induced infringement; and *Octane Fitness* and *Highmark* expand a successful party's ability to collect attorney fees. As such, the Supreme Court appears to be signaling its willingness to help curtail patent troll litigation.

Eligible Subject Matter

Patent trolls have often asserted business method patents and patents that appear to apply computers to well-known techniques, such as selling goods or services over the Internet. With the Supreme Court's decision in ***Alice Corp. v. CLS Bank Int'l.***, whether such patents actually claim eligible subject matter can now more readily be questioned. In *Alice*, the Supreme Court reaffirmed the traditional three exceptions to subject matter eligibility in 35 U.S.C. §101, namely laws of nature, natural phenomena, and abstract ideas. The Supreme Court applied a test to determine whether a patent claim falls under the abstract idea exception, as set forth in ***Mayo Collaborative Services v. Prometheus Laboratories, Inc***. The test contains two parts: first, determine whether the claims are drawn to an abstract idea; and second, if so, determine whether the claims contain an inventive concept sufficient to transform the claimed abstract idea into a patent-eligible application.

Applying this test to the patent claims at issue in *Alice*, the Supreme Court held that none of the claims (method, computer-readable medium, and system) recited eligible subject matter. As to the first part of the test, the claims were drawn to the abstract idea of intermediated settlement, which is used to manage certain forms of financial risk. As to the second part of the test, the claims recited the concept of intermediated settlement performed by a generic computer. The claims did not improve the functioning of the computer and did not contain an improvement in any other technology or technical field. Thus, this was not enough to transform the claimed abstract idea into patent-eligible subject matter, and the Supreme Court held the claims invalid. In a similar manner, business method patents and patents that apply computers to well-known techniques, such as those commonly asserted by patent trolls, can now apparently be more readily invalidated following the analysis in *Alice*.

Indefiniteness

Patent trolls have conventionally used patent claim uncertainty to their advantage to increase the likelihood of settlements. In other words, companies being sued for infringing an arguably ambiguous patent claim often prefer to avoid an unpredictable trial which they may lose and instead opt to settle. The Federal Circuit's test for determining indefiniteness in a claim, as evidenced in ***Biosig v. Nautilus***, had fostered this practice by making it difficult to prove that a patent claim is indefinite. Under the Federal Circuit's test, a patent was invalid on indefiniteness grounds only when it is "insolubly ambiguous" or "not amenable to construction." That is, a claim is insolubly ambiguous when a court using the traditional tools of claim construction defines the claim in a way that does not provide sufficient particularity and clarity to inform skilled artisans of the bounds of the claims. Under the "insolubly ambiguous" standard, it was difficult for a challenger to prove that a patent claim was

indefinite because of the ease with which this standard was met. For example, even if a claim were ambiguous, the claim needs to rise to the level of insolubly ambiguous for a court to find indefiniteness. Plus, given the presumption of validity of all granted patents, patents were not easily invalidated under indefiniteness grounds.

The Supreme Court, in an apparent attempt to prevent the very uncertainty that is favorable to patent trolls, rejected the Federal Circuit's insolubly ambiguous test. In ***Nautilus v. Biosig***, the Supreme Court established a new standard for determining indefiniteness: that a patent is invalid for indefiniteness if its claims, read in light of the specification and the prosecution history, fail to inform with reasonable certainty those skilled in the art about the scope of the invention. In its reasoning, the Supreme Court appeared to directly counter the traditional patent troll tactic: "a patent must be precise enough to afford clear notice of what is claimed, thereby appraising the public of what is still open to them. Otherwise there would be a zone of uncertainty which enterprise and experimentation may enter only at the risk of infringement claims." Thus, in formulating the rule, the Supreme Court sought to eliminate the temptation for an applicant to inject ambiguity into its claims, which has led to the exploitation of ambiguous patent claims by patent trolls.

Induced Infringement

A typical technique of patent trolls is to cast a wide net of infringement lawsuits for some moderately deep pockets, in hopes of settling early. The ability to nab deep pockets was heightened by the *en banc* Federal Circuit decision in ***Akamai v. Limelight***. In this decision, the Federal Circuit expanded the theory of induced infringement by allowing a patentee to sue a party for induced infringement even when no single party directly infringed the patent (*e.g.*, performed all the steps of a method claim). Thus, this standard made it much easier for patent trolls to sue for infringement because rather than being required to prove direct infringement and induced infringement, the patentee needed only to prove induced infringement. Thus, in the case of *Akamai*, the Federal Circuit allowed Akamai to prove that Limelight induced infringement without requiring Akamai to prove an actual act of direct infringement.

The Supreme Court in ***Limelight v. Akamai*** rejected the Federal Circuit's standard by pointing to the Supreme Court's long-standing precedent that to prove induced infringement, direct infringement must also be proved. As such, with the Supreme Court's *Limelight* decision, if a patentee cannot prove direct infringement, then the patentee cannot also prove induced infringement, because of the requirement that induced infringement requires direct infringement. Patents that may be affected by *Limelight* include those having claims that require more than one actor to complete the claimed method or process. For example, a party cannot show induced infringement of a method claim for an Internet website, where a first party operates the website and provides data on the website and a second party downloads the data from the website, unless direct infringement of the method claim is proved. As another example, a party cannot show induced infringement of a system claim for a business method process involving multiple computers passing data back and forth, where several parties operate the computers, unless direct infringement of the system is proved. Example patents such as these can no longer be asserted by patent trolls, thanks to the Supreme Court in *Limelight*. Thus, the Supreme Court in *Limelight* made it more difficult for patent trolls to prove infringement of patents that involve multiple steps or systems because direct infringement of the alleged patent must be shown.

Attorney Fees

In casting a wide net for would-be infringers, patent trolls typically make a calculated decision about which companies to pursue by maximizing payments (licensing agreements, settlements or damages awards) and minimizing costs and fees (attorney fees and exceptional case awards). 35 U.S.C. § 285 discourages patent trolls from casting too wide a net by allowing a prevailing party to collect reasonable attorney fees in exceptional cases (*e.g.*, baseless lawsuits). Still, some have been critical of the patent system for not sufficiently punishing patent trolls for bringing baseless lawsuits in hopes of scaring a defendant into paying a settlement or licensing arrangement. The Federal Circuit's previous § 285 determinations under a fairly specific standard, along with its review of a lower court's award *de novo*, had not helped allay such criticism.

The Supreme Court in ***Octane Fitness v. Icon Health and Fitness*** and ***Highmark v. Allcare*** fundamentally altered the § 285 analysis by expanding the discretion of district courts to award attorney fees and raising the bar to overturn § 285 determinations on appeal. Specifically, the Supreme Court disposed of the Federal Circuit's standard for determining exceptional cases as being too rigid and further ruled that the standard for overturning § 285 determinations should be an abuse of discretion standard. Thus, the Supreme Court appeared to signal that trial courts are well positioned to identify abusers of the patent system and punish the abusers accordingly. In this way, *Octane* and *Highmark*

could dramatically change the techniques of patent trolls in the face of higher litigation costs.

Conclusion

Patent troll legislation will most likely **resurface again in the future**. However, for the time being, it appears that these recent decisions by the Supreme Court will help curtail some of the abuse by patent trolls.