IP DECISIONS ABOUND AT THE SUPREME COURT IN SPRING 2014

BY: AARON BOWLING

After leaving the realm of intellectual property law alone for decades, and allowing the Federal Circuit 25 years of mostly undisturbed jurisprudence, the United States Supreme Court has strongly reestablished its presence over the past eight years. This year especially, the Court will hear a wide array of patent, trademark and copyright cases, setting the stage for 2014 to be a banner year for Supreme Court IP decisions. Now, more than ever, successful and effective IP practice will require close observance of the high court's activity. To help, a synopsis follows of each case decided, or to-be-decided, in 2014.

CAN LACHES BE APPLIED WHEN PLAINTIFF IS WITHIN THE STATUTE OF LIMITATIONS?

On January 21, the Supreme Court heard oral arguments in *Petrella v. MGM,* a copyright infringement action involving 1980 boxing movie, "Raging Bull." In its forthcoming opinion, the Supreme Court will address the applicability of laches to copyright infringement claims brought within the statute of limitations.

Laches is an equitable defense that bars a plaintiff's unreasonably delayed claims. In *Petrella,* the daughter and heir of screenwriter Frank Petrella sued Metro-Goldwyn-Mayer Studios (MGM) in 2009, alleging that the "Raging Bull" film constituted an unauthorized exploitation of Petrella's derivative rights.

Although Petrella was asserting her rights nearly 30 years after MGM released the film, she sought damages only for acts of infringement occurring within the three-year statute of limitations set forth in the Copyright Act, i.e., from 2006 to the filing of her complaint.

Nonetheless, the Central District of California, and subsequently the Ninth Circuit, held that Petrella's claim was barred by laches. Both courts agreed that Petrella's delay was unreasonable, and that the delay prejudiced the defendants, both from a commercial and evidentiary standpoint.

At oral arguments in January, the Justices actively debated Congress' intended purpose for the three-year statute of limitations provision, and whether Congress' purpose was distinct from the underlying policy objectives of laches. Furthermore, the Court considered, if laches and the statute of limitations can in fact coexist, should laches bar the plaintiff from obtaining injunctive relief, damages or both?

The high court appeared divided, reflecting a stark division that currently exists among federal appellate courts: the Fourth Circuit completely bars defendants from asserting laches within the statute of limitations; the Eleventh Circuit allows laches during the statutory period only for retrospective (not prospective) relief; the Second Circuit allows laches only for equitable (not legal) relief; and the Ninth Circuit allows laches without restriction.

The decision, expected in June, is highly anticipated amongst copyright owners, particularly those in the film and music industries, where copyright owners often assert their rights years after the alleged infringement.

PATENTEES *ALWAYS* BEAR BURDEN OF PROVING INFRINGEMENT

On January 22, the Supreme Court began its year by unanimously reversing the Federal Circuit in *Medtronic v. Mirowski Family Ventures*. The high court held that the burden of proving infringement remains on the patent owner, even when a licensee seeks a declaratory judgment of noninfringement. The decision, authored by

Justice Stephen Breyer, substantially benefits patent licensees, who, upon showing declaratory standing, may now force the licensor to prove that a licensed patent covers the licensee's products, and do so at a time and forum of the licensee's choosing.

As a general rule, the patentee always carries the burden of proving infringement; but at the case below, the Federal Circuit carved out an exception in the limited circumstances where a licensee files declaratory judgment against its licensor. In those cases, the three-judge panel held, the *licensee* must prove *non*infringement, rather than the patentee proving infringement.

The Supreme Court quickly rejected the Federal Circuit's burden shift, first taking a statutory approach and pointing out that the Declaratory Judgment Act has only procedural, not substantive, impact. The burden of proof is a substantive matter, and a burden shift a substantive change, and thus, the burden shift was legal error.

The Court also rejected the Federal Circuit on policy grounds, opining that the new exception would cause post-litigation uncertainty about the scope of the litigated patent. If the declaratory judgment had a different burden than its corresponding coercive action, the Court explained, the declaratory judgment action would have no claim preclusive effect over the later action. Instead, the parties would be forced to relitigate the entire infringement allegation, and the declaratory judgment action would fail to achieve its intended purpose of providing an "immediate and definitive determination of the legal rights of the parties."

The respondents expressed concerns that, without the Federal Circuit's exception, licensees could easily "force the patentee into full-blown patent infringement litigation . . . at [their] sole discretion." The Court countered that those circumstances are strictly limited to situations where the licensee can show a genuine dispute of "sufficient immediacy and reality" about the patent's validity or its application. Overall, the Court concluded, the "general public interest considerations are, at most, in balance . . . and do not favor a change in the ordinary rule imposing the burden of proving infringement upon the patentee."

CHANGES TO THE STANDARD FOR ATTORNEYS' FEES AWARDS IN PATENT CASES APPEAR IMMINENT

On February 26, the Supreme Court heard oral arguments in two cases, *Octane Fitness v. Icon Health & Fitness* and *Highmark v. Allcare Health Management,* both directed to the standard for determining when an award of attorneys' fees is appropriate. Under 35 U.S.C. § 285, courts should award attorneys' fees only in "exceptional" cases. The Federal Circuit finds a case is "exceptional" only when "both (1) the litigation is brought in subjective bad faith, and (2) the litigation is objectively baseless."

In *Octane,* the district court granted summary judgment of noninfringement in favor of alleged infringer Octane, but denied Octane's request for attorneys' fees, finding that plaintiff's case was neither objectively baseless nor brought in bad faith. After the Federal Circuit affirmed, Octane petitioned the Supreme Court, asserting that the Federal Circuit's "rigid" test for awarding fees "improperly appropriates a district court's discretionary authority" and "raises the standard for accused infringers (but not patentees) to recoup fees." As a result, Octane argued, patent plaintiffs are encouraged to bring "spurious patent cases" to cause competitive harm or coerce unwarranted settlement from defendants.

In *Highmark,* defendant Highmark also prevailed at district court by defeating a claim of infringement, but the Federal Circuit

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reversed in part the district court's award of attorneys' fees. In its petition, Highmark asked the Supreme Court to address the level of deference that appellate courts give to fee award determinations. As the law stands, the Federal Circuit uses three distinct standards of review for the various aspects of its "exceptional" test. The "objectively baseless" prong receives *de novo* review; the "subjective bad-faith" prong is reviewed for clear error; and if the case is deemed exceptional, the awarding of fees is reviewed under an abuse of discretion standard.

At oral argument, the Court appeared to favor both petitioners. Regarding *Octane,* the majority of justices seemed convinced that district courts require more discretion in deciding whether to award attorneys' fees in accordance with § 285. A revised standard may instruct district courts to consider the totality of the circumstances and determine if the failure to shift fees would result in a "gross injustice." Regarding *Highmark,* the majority of justices appeared to agree that appellate courts need to provide more discretion to district court fee awards, for example, by utilizing an abuse of discretion standard.

If the Supreme Court's ruling falls along these lines, practitioners can expect district courts to issue attorneys' fees to alleged infringers more readily, and can expect appellate courts to more rarely overturn those awards on appeal.

ARE COMPUTER-IMPLEMENTED SOFTWARE METHODS PATENT ELIGIBLE?

On March 31, the Supreme Court heard arguments in *Alice Corp. v. CLS Bank International* on whether claims to computer-implemented process or system inventions are ineligible for patent protection under 35 U.S.C. § 101 as being directed to abstract ideas.

Alice's patents relate to a computerized trading platform used for conducting financial transactions. Under the claimed invention, a third party "settles" (oversees and ensures) obligations between a first and second party so as to eliminate the risk that one party will perform while the other will not.

CLS allegedly began infringing the Alice patents in 2002. After licensing negotiations failed, CLS filed declaratory judgment in the District Court of D.C., asserting invalidity and noninfringement. The District Court granted summary judgment of invalidity, holding that Alice's patents constituted patent ineligible abstract ideas under § 101.

The district court explained that the method "of employing an intermediary to facilitate simultaneous exchange of obligations in order to minimize risk" is a "basic business or financial concept." Thus, the court continued, a "computer system merely 'configured' to implement an abstract method, is no more patentable than an abstract method that is simply 'electronically' implemented."

At the Federal Circuit, a three-judge panel reversed the district court, holding that computer-implemented inventions like Alice's are *eligible* under § 101 unless it is "manifestly evident" that the claims are about an abstract idea. To be "manifestly evident," the "single most reasonable understanding" must be "that a claim is directed to nothing more than a fundamental truth or disembodied concept, with no limitations in the claim attaching that idea to a specific application."

CLS petitioned for rehearing *en banc,* and after granting the petition, the Federal Circuit vacated the earlier panel opinion, reinstated the district court's holding and ultimately issued six separate opinions spanning more than 125 pages. The Court split 5-5 with respect to the eligibility of Alice's computer system claims and failed to offer a majority-endorsed approach for determining whether a computer-implemented invention is a patent-ineligible, abstract idea.

In urging the Supreme Court to grant its cert petition, Alice pointed to the Federal Circuit's "inability to make a decision" and the apparent "enormous confusion that exists" as evidence that prompt intervention is necessary.

The level of interest in *Alice v. CLS Bank* among those in the software industry is enormous. The Supreme Court received 51 amicus briefs, including those filed by technology giants Google and Microsoft, and an amicus co-authored by Banner & Witcoff's Charles W. Shifley on behalf of the Intellectual Property Law Association of Chicago.

At oral argument on March 31, the Justices struggled to gain clarity and consensus on what benefits, if any, the proposed changes to software patent eligibility may provide. Justice Stephen Breyer, the most active member of the bench, likened the Court's predicament to being "between Scylla and Charybdis." Like Odysseus navigated a strait between the two monsters, the Supreme Court endeavored to define patent eligibility so as to allow the patenting of "real inventions with computers," yet prevent the patenting of abstract ideas.

In its forthcoming opinion, expected by the end of June, the Supreme Court may chart new waters and rule broadly on the patent eligibility of software-based patents, or it may instead rule narrowly, affirming the Alice invention as ineligible for patent, and confronting the issue of software eligibility another day.

THE LANHAM ACT AND FALSE ADVERTISING OF FOOD PRODUCTS

In POM Wonderful v. Coca Cola, the Supreme Court will address the interplay between the false advertising provisions of the Lanham Act and the Food, Drug & Cosmetics Act (FDCA). In 2008, POM sued Coke under the Lanham Act and California state false advertising laws, alleging that Coke misled consumers into believing that Coke's Pomegranate Blueberry product contained predominantly pomegranate and blueberry juice.

Lanham Act § 1125(a) broadly prohibits false advertising, authorizing suit against those who use a false or misleading description or representation "in connection with any goods." Any person "who believes that he or she is or is likely to be damaged by" the use of that false description or representation may bring suit. Likewise, the FDCA provides that a food is misbranded if "its labeling is false or misleading in any particular," or "[i]f any word, statement, or other information required by" the FDCA or its regulations "to appear on the label or labeling is not prominently placed thereon with such conspicuousness . . . and in such terms as to render it likely to be read and understood by the ordinary individual under customary conditions of purchase and use."

Coke's Pomegranate Blueberry juice beverage contains 0.3 percent pomegranate juice and 0.2 percent blueberry juice in a fruit juice blend that contains 99.4 percent apple and grape juice. Food and Drug Administration (FDA) regulations, however, allow juice producers to describe their product using the names of juices that are used in only very small volumes as flavoring. Thus, even if POM's assertions of false advertising were true, Coke was nonetheless in compliance with FDA regulations.

With that conflict in mind, the Central District of California held that the FDCA barred POM's Lanham Act claim against the name and labeling of Coke's product and expressly preempted POM's state law claims. The Ninth Circuit affirmed, pointing to FDCA's 337(a), which requires that "all such proceedings for the enforcement, or to restrain violations, of [the FDCA] shall be by and in the name of the United States." The Ninth Circuit held that the FDA "comprehensively regulates food and beverage labeling," and "for a court to act when the FDA has not — despite regulating extensively in this area — would risk undercutting the FDA's expert judgments and authority." To "give effect to Congress' will,"

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the Ninth Circuit furthered, "we must respect the FDA's apparent decision not to impose the requirements urged by POM."

After hearing arguments on April 21, the Supreme Court's holding may go in a number of directions: it may bar all private claims under the FDCA, it may bar Lanham Act claims directed to products regulated by the FDCA, or it may reverse the Ninth Circuit and allow private claims against food companies.

ARE STREAMING INTERNET TELEVISION BROADCASTS "PUBLIC PERFORMANCES?"

In *American Broadcasting Companies v. Aereo,* the Supreme Court will decide whether a company "publicly performs" a copyrighted television program when it retransmits a broadcast of that program to paid subscribers over the Internet.

Under the federal Copyright Act, the owners of protected creations have an exclusive right "to perform the copyrighted work publicly." Aereo, a two-year-old company based in New York, captures over-the-air television broadcasts and retransmits the broadcasts to Aereo subscribers. Each Aereo subscriber, for $8 a month, receives a miniature antenna to capture the signal and interact with a cloud-based digital video recorder.

While cable and satellite companies normally pay copyright owners "retransmission consent fees" in order to carry network programming, Aereo does not compensate nor obtain authorization from the broadcasting companies.

Last April, the Second Circuit ruled in favor of Aereo, declaring that such transmissions are not a "public performance," and thus there is not a violation of the federal Copyright Act. Despite the victory below, Aereo filed cert at the Supreme Court in order to obtain a definitive answer on the issue. Without the Supreme Court stepping in, Aereo alleged, the TV broadcasting industry would otherwise "wage a war of attrition" by re-litigating the issue in every market to which Aereo expands its business.

The Second Circuit decision followed its 2008 decision in *Cartoon Network v. Cablevision,* where it held that Cablevision's transmission of DVR-recorded programs were not public performances. In so holding, the Second Circuit concluded that one-to-one transmission of a specific program signal is not a public performance. Thus, as the industry brief notes, "so long as no two people can receive the same transmission of a performance, the public performance right is not violated — even if the performance is being transmitted concurrently to thousands of members of the public."

In the present case, the Second Circuit compared Aereo's business to a local consumer's ability to watch and record a program for later viewing (i.e., DVR). In that light, because Aereo assigns each of its users an individual antenna at the time the show is streamed or recorded, the company's "performance" is private, not public. "Control, exercised after the copy has been created, means that Aereo's transmissions from the recorded copies cannot be regarded as simply one link in a chain of transmission, giving Aereo's copies the same legal significance as the RS-DVR copies in Cablevision."

Thus, the Second Circuit held, Aereo is lawfully providing a service to local residents, all of whom could have performed the service themselves, individually. The Supreme Court will hear arguments from Aereo and ABC on April 22.

IS A CLAIM WITH MULTIPLE, REASONABLE INTERPRETATIONS INDEFINITE?

In *Nautilus v. Biosig,* the Supreme Court will review the Federal Circuit's test for invalidating an issued patent on grounds of indefiniteness under 35 U.S.C. § 112(b) (pre-AIA). In particular, petitioner Nautilus urges the Supreme Court to reject the Federal Circuit's requirement that the alleged infringer prove, by clear and convincing evidence, that claims are "insoluble," i.e., that the claim is "not amenable to construction."

Patent claims, in delineating the patentee's right to exclude others from making, using and selling the invention, play a critical role in enforcing the core public interests lying at the foundation of the United States patent system. If the patentee fails to draft claims of sufficient precision and definiteness, the public is not adequately informed of the bounds of the protected invention. Instead, the carefully prescribed rights provided to the patentee are inflated, and the contribution to science lessened. Thus, 35 U.S.C. § 112(b) requires that patent claims "particularly point[] out and distinctly claim[]" the claimed subject matter; and failure to do so renders the patent indefinite and therefore invalid and unpatentable.

At the Federal Circuit below, a three-judge panel held that the term "spaced relationship" did not suffer from indefiniteness. Although "spaced relationship" arguably permitted multiple, reasonable interpretations by those skilled in the art, the claim was nonetheless amenable to a construction, and therefore, not "insoluble." Petitioner Nautilus now asks the high court to address whether "the Federal Circuit's acceptance of ambiguous patent claims with multiple reasonable interpretations — so long as the ambiguity is not 'insoluble' by a court — defeat[s] the statutory requirement of particular and distinct patent claiming."

The Federal Circuit's test for indefiniteness, Nautilus argues, allows for unreasonable advantages to the patentee and disadvantages to others arising from uncertainty as to their respective rights. This "zone of uncertainty which enterprise and experimentation may enter only at the risk of infringement claims" stifles innovation. Moreover, Nautilus asserts, allowing claims with multiple, reasonable interpretations incentivizes patent drafters to purposefully obfuscate their invention. This may lead to further downstream problems for the judicial system, where courts are forced to "spend a substantial amount of judicial resources trying to make sense of unclear, overbroad, and sometimes incoherent claim terms."

The Supreme Court will hear arguments on April 28 amidst a flurry of recent debate on indefiniteness, including an August 2013 Government Accountability Office study for Congress that identified "unclear and overly broad patents" as one of the three key factors cited by stakeholders as contributing to the recent increase in patent litigation. All of the patent community will be watching closely, as even a minor change to the definiteness law could have far-reaching implications.

DOES INDUCED INFRINGEMENT REQUIRE DIRECT INFRINGEMENT BY A SINGLE ENTITY?

In *Limelight v. Akamai,* on April 30, the Supreme Court will review an *en banc* Federal Circuit decision holding that induced infringement involving multiple actors under 35 U.S.C. § 271(b) does not require a single entity to have directly infringed the patent under 35 U.S.C. § 271(a) (direct infringement). The Supreme Court's decision may be momentous for the telecommunication and technology industries, where end users are increasingly interacting with large, multi-component networks to complete multi-step processes.

35 U.S.C. § 271(b), which codifies induced infringement, states that "whoever actively induces infringement of a patent shall be liable as an infringer." Traditionally, courts have held that induced infringement under § 271(b) requires (1) an act of knowing inducement to infringe (with knowledge of the patent); and (2) actual direct infringement of the patent as defined by § 271(a).

The Akamai patents-in-question pertain to website "content-delivery" technology. In particular, the asserted patents claim a

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method of rapidly delivering Internet content (e.g., streaming video) to users by rerouting embedded website objects to servers located in close proximity to the user. At the district court, Akamai alleged that Limelight induced infringement of those patented methods by providing content to its users via the claimed methods, and a district court jury subsequently awarded Akamai over $40 million in lost profits.

On appeal before the Federal Circuit, Limelight asserted there was no induced infringement because there was no direct infringement under § 271(a). Rather, Limelight claimed, no single entity practiced each of the steps of the claimed method: Limelight completed the first several steps and end users performed the last step. Accordingly, Limelight concluded, the district court's ruling on induced infringement failed as a matter of law.

A 6-5 majority of a sharply-divided Federal Circuit rejected Limelight's argument, holding that "it is not necessary to prove that all the steps were committed by a single entity." Instead, § 271(a) direct infringement may be based on "acts of infringement . . . committed by an agent of an accused infringer or a party acting pursuant to the accused infringer's direction or control."

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Leaders of the technology industry have staunchly opposed the Federal Circuit decision, claiming that the court impermissibly created a new basis for patent infringement. Many have also contended that the Federal Circuit's new rule imposes an unreasonable obligation on businesses selling otherwise non-infringing products and services, forcing them to monitor third-party end users.

Other parties, including several biotechnology firms, have backed the Federal Circuit decision, asserting that the new rule closes a significant loophole. Under the new rule, they point out, parties can no longer easily evade the exclusionary rights of method patent holders by having an end user perform the final steps. ■

Banner & Witcoff will closely monitor each of these cases over the next several months and will continue to provide updates and analysis in its IP Alerts. To subscribe to these alerts, please contact Chris Hummel at ***chummel@bannerwitcoff.com.***