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Fig. 1.

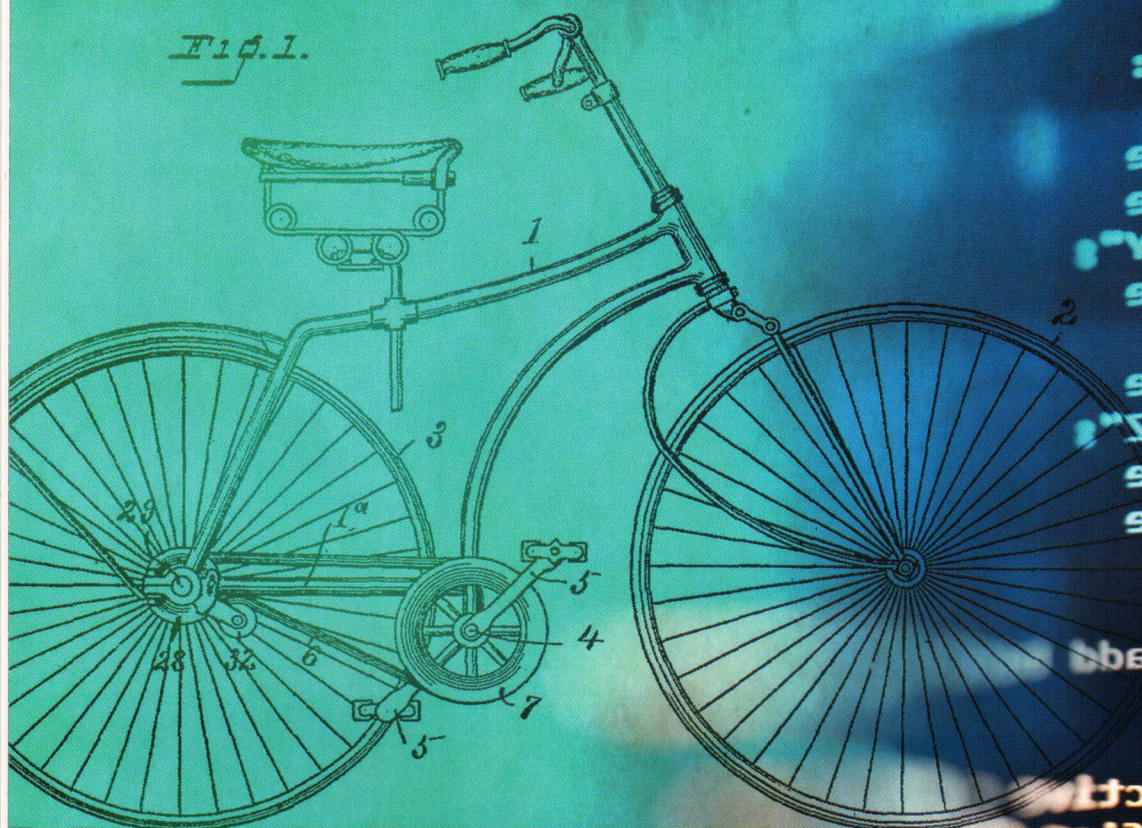


Fig. 2.

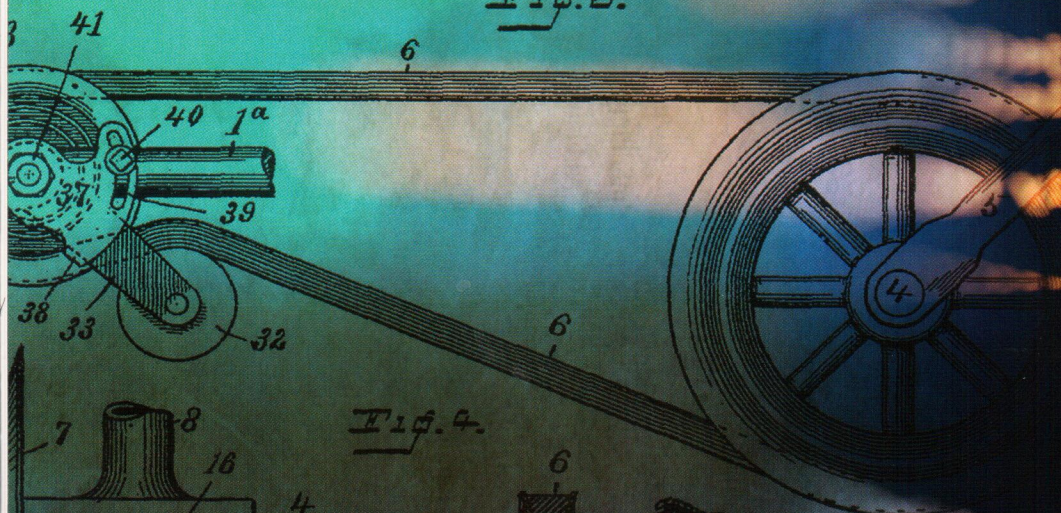
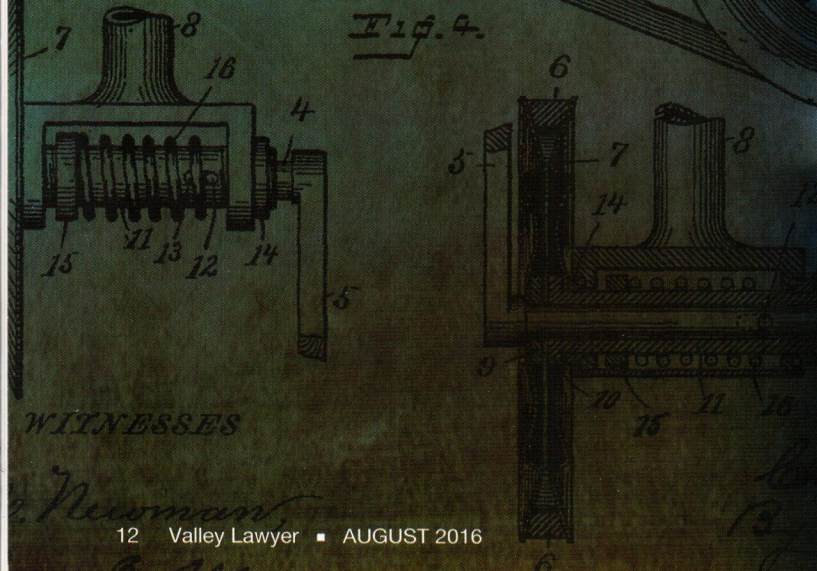


Fig. 4.



WITNESSES

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An Evolutionary Process: *The Ins and Outs of Patent Law*

By Robin Springer

A patent is a “proprietary right granted by the federal government pursuant to laws passed by Congress, which conveys to its owner exclusive rights to a claimed invention.” A simple description surely, but one that’s fraught with twists, turns and pitfalls that make the process of obtaining and defending a patent, particularly one involving an abstract idea, a challenging proposition.

PATENT LAW HAS EVOLVED SINCE ENACTMENT of the Patent Act of 1790 (the Act). And, while Article I of the U.S. Constitution gives Congress the power to enact laws relating to patents,¹ which it did in passing the American Inventors Protection Act of 1999 and America Invents Act in 2011, recent Supreme Court decisions regarding patent law affect everything from fee shifting to interpreting the types of inventions that will survive scrutiny under the Act.

On April 29, 2014, the littler guy chalked up a big win when the United States Supreme Court, in unanimous decisions, decided companion cases regarding fee shifting in patent suits—*Octane Fitness, LLC v Icon Health & Fitness, Inc.*² and *Highmark Inc., v Allcare Health Management System, Inc.*³ The questions at issue were: (1) in what circumstances a prevailing party in a patent suit can obtain an award of attorney fees and (2) what type of review, on appeal, is required of the Federal Circuit.

Prior to these decisions, it was almost impossible to obtain attorney fees in patent cases, even in outrageous cases. The two decisions significantly lower the bar for parties to obtain such fees. The statute in question is Section 285 of the Patent Act. It reads in its entirety: “The court in exceptional cases may award reasonable attorney fees to the prevailing party.”

Fourteen words. So, what was the fight about? First, the definition of the word ‘exceptional.’ In *Brooks Furniture Mfg., Inc. v Dutailier Int’l, Inc.*,⁴ the Federal Circuit defined exceptional in a very stringent manner: A case was exceptional only when a party engaged in material inappropriate conduct or, when the litigation was (1) brought in subjective bad faith, and (2) objectively baseless.⁵ Further, *Brooks* held the improper conduct had to be established by clear and convincing evidence.⁶

Octane and *Highmark* changed that. The Supreme Court stated that the Federal Circuit, which oversees all patent appeals, had made it too difficult to get attorney fees in egregious patent cases. The Court held that the word exceptional shall be defined by its ordinary meaning, including uncommon, rare, not ordinary. Something less than bad faith can be ‘exceptional.’⁷ District courts now may determine whether a case is exceptional by looking at the totality of the circumstances.⁸

Of the two-prong test, the Court held that both factors need not be present; meeting one satisfies the test.⁹ And

the Court lowered the standard of proof required for a showing of misconduct.¹⁰ Second, the Court changed the standard of review on appeal, to abuse of discretion, thus giving trial judges more power to award fees and appellate courts less authority to overturn such awards.¹¹

Daniel Nazer, staff attorney at the Electronic Frontier Foundation, thinks the cases are a very good development for defendants in patent suits, “It’s a real change,” he says, “a real signal to lower court and district court judges that they can award fees.”

In 2015, 5,819 patent lawsuits were filed, a 15 percent rise from 2014, but fewer than the 6,092 filed in 2013. Non-practicing entities (NPEs), or patent trolls, were the top 10 filers of patent lawsuits in 2013, according to Lex Machina.¹²

But NPEs aren’t the only abusers. Large operating companies sometimes also use patent infringement claims, seemingly as part of their acquisition strategies. Will the Court’s decisions deter these abuses?

They might, Nazer says. “It certainly makes the business model riskier,” but not so risky as to eliminate the problem.

When it comes to the big guys, because they typically have adequate capital allocated to litigation expenses, “they can consider these costs part of their operating expenses,” says Westlake Village patent attorney Pejman Yedidsion.

Nazer believes the rulings should reduce the volume of cases brought by the worst kind of patent trolls, but cautions, “Judges are generally reluctant to award attorney fees where statutes allow for fee shifting because it adds another layer to the litigation.” It’s like a new case; players can then question, for example, whether the amount of the award was justified.

In spite of courts’ hesitance to award fees, just 15 days after the rulings, the Federal Circuit said in *Site Update Solutions, LLC v. Accor N. Am., Inc., et al.* (Newegg) that the high court’s new standard for fee shifting warranted remanding the case for a determination of fees.¹³ And, on May 30, 2014, a defendant in another case was awarded fees.¹⁴

The precedent is a good start, but many, including Yedidsion, believe legislative reform is also necessary. “Having Congress enact legislation may be a better path for change than two companies appealing their cases all the way to the Supreme Court,” he said.

The broader discretion the Supreme Court gave the Federal Circuit may deter patent holders from bringing frivolous claims. But, although Newegg was remanded for



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determination of attorneys' fees, in February 2016, the Federal Circuit, in a non-precedential opinion, held that the District Court did not abuse its discretion in denying attorney fees, thus again precluding Newegg from collecting.¹⁵

However, in another win for those who believe patents are too easy to get, the United States Supreme Court, in a unanimous decision, invalidated four more software patents, thereby overruling every patent case that came before it during the 2013-2014 term.

The case, *Alice Corporation Pty. Ltd, v CLS Bank International et al.*,¹⁶ concerned software that was used on a computer to escrow funds between buyers and sellers, minimizing settlement risk. The Court was tasked with clarifying when an analytical method (i.e., escrowing) performed on a computer is eligible for a patent. The Court made this determination using Section 101 of the Patent Act.

Some pundits wondered why the Court focused its inquiry on a Section 101 analysis, and why it ultimately issued a judge-made rule, when it could have easily invalidated the patents under Section 103 of the Patent Act. That section precludes from patent protection any invention that is obvious.¹⁷ Thus, if prior art exists, an invention is obvious and the patent cannot stand.

Section 101, on the other hand, requires that an invention be new and useful,¹⁸ precluding from patent

protection any invention that is abstract, although the word 'abstract' comes from judicial interpretation; it does not appear in the code. Section 101 is a gatekeeper statute; if an invention does not pass 101 muster, there is no 103 analysis.

One reason the Court used Section 101 is because the issue on appeal was not whether the claims in the application were obvious in light of prior art. Rather, it was whether the claims were valid and eligible for patent protection; a 101 question.

Section 101, a very short statute, "needs a level of interpretation," says Nazer, explaining why the Court issued a judge-made rule. The Section 101 analysis is important because, he says, "if abstract ideas are patentable, then 103 is not enough."

Is Software Patentable Post-Alice?

Interestingly, although software patents were at issue in *Alice*, the Court did not use the word 'software' a single time in its 17-page decision.

While the Court invalidated Alice's software patents, it did not exclude software as a class worthy of patent protection. In following an older decision, the Court simply reiterated that the invention must be patent-worthy in itself regardless of the language (software or otherwise) in which it is conveyed.¹⁹

This is crucial to the software industry. Aside from software being one of the most important economic drivers in the United States, virtually every industry relies on it. The U.S. software market contributed more than \$276 billion to the nation's economy in 2009, according to an amicus brief filed by IBM in *Alice*.²⁰ IBM alone invests \$3 billion annually in software R&D.²¹ Uncertainty as to whether software as a category is patent-eligible would put software innovation at risk.

Does Alice Fix Things?

Ultimately, the patents in *Alice* were invalidated because they claimed an abstract idea in violation of Section 101 of the Patent Act.²² Regardless, *Alice* represents a big change in the law. Previously, the Federal Circuit treated programmed generic computers as new machines, making them patentable. The Court had previously undermined this interpretation, doing so again in *Alice*.²³

"Just because an invention uses a general purpose computer, doesn't make it patent-eligible," says Yedidsion.

The Court noted that escrow has existed as far back as the 19th century. Thus, using a third-party intermediary to address settlement risk is an abstract idea and there is no inventive concept in having that process performed on a generic computer.

The Court articulated a framework to determine whether an invention was invalid due to abstractness under Section 101.²⁴

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- 1) Determine if the claim at issue is directed toward an 'abstract' idea; and
- 2) Examine the elements of the claim to determine whether it contains an 'inventive concept' sufficient to *transform* the abstract idea into a patent-eligible application. (emphasis added)

But what is too abstract? And what is sufficient to be transformative? In spite of everything the Court said about what makes a bad patent, it gave little guidance as to what constitutes a good one. We do know a few things, though.

Abstract Versus Transformative

"All types of things are not patentable. If you read an article and write down what you think of it from your mind, that's not patentable," explains Nazer.

The core meaning of an abstract idea is "whether the idea being patented already existed out in nature... or if it is something new, or facilitated with something new...that a human being has created," adds Yedidsion.

Mathematical formulas are abstract; they solve equations. But software does not have to be a mathematical formula. It can control an airplane, use a sensor, process speech. There may be more than one patent for seemingly identical inventions because there may be more than one patentable method to accomplish the result.

"Think of transformative as facilitating change," says Los Angeles patent attorney Omid E. Khalifeh. If you take a human's speech and make it into words, that's probably abstract. If you transform what that person is saying into something else, such as a robot moving its arm, for instance, that might be transformative.

The effects of *Alice* have cascaded to the lower courts. But bad patents still stifle innovation and currently there is no real downside, other than financial, to rein in inventors from submitting applications for those bad patents. It begs the question: Should there be stiffer penalties for those who submit applications for inventions that are not patent-eligible?

Walt Tetschner, long-time speech-recognition software industry analyst, believes there should. The biggest issue surrounding bad patents, he says, is that although inventions must be novel and unique to be patent-eligible, this criterion is routinely ignored by inventors. "People are patenting stuff that's been around for years."

Tetschner advocates for criminal penalties similar to lying under oath for inventors who submit patent applications when the inventor is aware of prior art. Patent attorneys and inventors are already obligated to disclose to the United States Patent and Trademark Office any pertinent prior art of which they are aware.²⁵ Failure to do so is called inequitable conduct.²⁶ But criminal penalties do not attach to conducting oneself inequitably. The worst that would happen, if the

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patent is challenged in court and if it is found that relevant information was withheld, the court could invalidate the patent and, possibly, the attorney could be subject to discipline.

Yedidsion, for one, is not in favor of criminal penalties attaching to patent applications. "It's really difficult to prove later if an inventor had prior knowledge." And there is no requirement that an applicant search for prior art; that's the patent examiner's job. The patent process is an ex parte system, with no oversight, so there may be more incentive to submit questionable claims than to not.

Take-Aways

Patents require artful drafting. "Everything you say in a patent application, even the position of a punctuation mark, can influence the scope and enforceability of the patent," says Los Angeles patent attorney Lance M. Pritikin.

To be patentable, software cannot be just a manipulation of something a human can do. It has to advance the technology. It has to make the computer do something it is not otherwise possible to do. And, whether an invention is patentable is not a balancing test of abstract versus transformative. Both prongs are necessary, so patent attorneys should focus on both when drafting patent applications. 

¹ U.S. Const. Art. I, §8.

² 134 S.Ct. 1749 (2014).

³ 134 S.Ct. 1744 (2014).

⁴ 393 F.3d 1378 (Fed. Cir. 2005).

⁵ *Id.* 1381.

⁶ *Id.* 1382.

⁷ *Octane*, 134 S.Ct. at 1757.

⁸ *Id.* 1754.

⁹ *Id.* 1757.

¹⁰ *Id.* 1758.

¹¹ *Highmark*, 134 S.Ct. at 1747.

¹² Owen Byrd & Brian Howard, 2013 Patent Litigation Year In Review at i (Lex Machina, 2013); Brian Howard & Jason Maples, 2015 Patent Litigation Year In Review at i (Lex Machina, 2016).

¹³ *Site Update Solutions, LLC, v Accor North America, Inc.*, et al., No 2013-1458, (Fed. Cir. 2014) Order vacating denial of an exceptional case and award of attorneys' fees, and remanding for further proceedings (May 14, 2014).

¹⁴ *Lumen View Tech., LLC v. Findthebest.Com, Inc.*, 24 F.Supp.3d 329, 337 (S.D.N.Y., 2014).

¹⁵ *Site Update Solutions, LLC v Accor North America, Inc.*, et al., No 2015-1448, 5-6 (Fed. Cir. 2016).

¹⁶ 134 S.Ct. 2347 (2014).

¹⁷ 35 U.S.C. §103.

¹⁸ 35 U.S.C. §101.

¹⁹ *Alice*, 134 S.Ct. at 2350.

²⁰ Brief of Amicus Curiae International Business Machines Corporation In Support of Neither Party, *Alice Corp. Pty Ltd., v CLS Bank International et al.*, 134 S.Ct. 2347 (2014), No. 13-298, 8-9.

²¹ *Id.* 10.

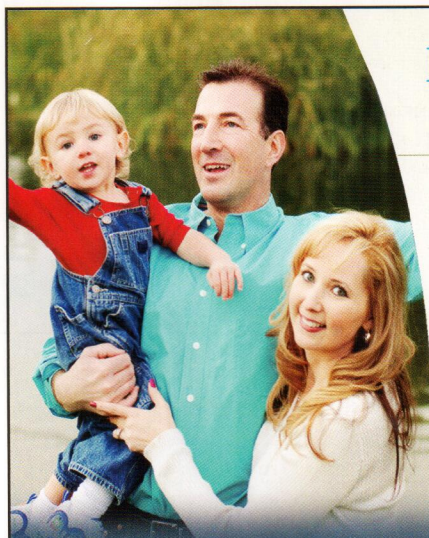
²² 35 U.S.C. §101.

²³ *Alice*, 134 S.Ct. at 2358.

²⁴ *Id.* 2355.

²⁵ 37 C.F.R. §1.56.

²⁶ *Id.*



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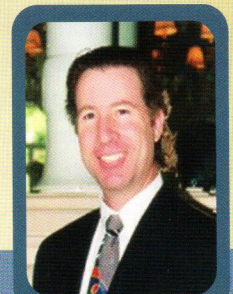
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