

## PATENT AND TRADEMARK LAW

## Expert Analysis

# The Supreme Court's Push For Clarity in Patent Cases

The Supreme Court had a busy term, particularly with regard to patent cases, and especially in an effort to provide much needed guidance to the divided U.S. Court of Appeals for the Federal Circuit. The Supreme Court granted writs of certiorari in six patent cases, likely the largest number of patent cases the court has ever heard in one term. Each of these cases was decided unanimously, resulting in five reversals of the Federal Circuit. The court's single affirmance, *Alice v. CLS Bank*, upheld the Federal Circuit's outcome, but the Supreme Court's concise opinion and clear reasoning stand in stark contrast to the Federal Circuit's struggle with the case, which had resulted in seven separate opinions.<sup>1</sup>

Some commentators, including John M. Golden in "The Supreme Court as 'Prime Percolator,'" have suggested previously that the Supreme Court can serve to stimulate dialogue within the Federal Circuit to compensate for the centralized review process of patent appeals.<sup>2</sup> Whereas in non-patent cases, the law can "percolate" among the Courts of Appeals and the Supreme Court can eventually resolve such circuit splits, the Federal Circuit is the sole court of appeals for patent cases, theoretically leading to less doctrinal divide and percolation.

Arguably, however, the Federal Circuit has become less predictable and more divisive, and the Supreme Court's six unanimous patent decisions this term signal that the court's role has evolved to "prime resolver and clarifier" in the patent space, resolving ambiguities and providing clearer legal standards for lower courts, patent applicants, and litigants. Of the six unanimous patent decisions announced by the court this term, three were released in June: *Alice Corp. v. CLS Bank*, *Nautilus v. Biosig Instruments*, and *Limelight Networks v. Akamai Technologies*. Each

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of these opinions, discussed below, demonstrates the court's desire to articulate clearer and easier-to-follow legal standards in the field of patent law.

### Patentable Subject Matter

The Supreme Court's desire to promulgate clearly defined patent standards was perhaps most evident in its *Alice* decision relating to patentable subject matter under 35 U.S.C. §101. There, the court reiterated the two-part *Mayo* test for the patentability of computer-based methods. While the Supreme Court technically "affirmed" the Federal Circuit's decision in *Alice*, the affirmance was merely on the Federal Circuit's result, as its en banc decision generated seven separate opinions, resulting in no majority on which to clarify the legal standard for determining patent eligibility under §101. (See this column dated Sept. 25, 2013).

*CLS Bank* had initially filed a declaratory judgment action against *Alice* in the U.S. District Court for the District of Columbia, seeking a declaration that the claims at issue were invalid, unenforceable, or not infringed. *Alice* counterclaimed, alleging infringement. The claims at issue in *Alice* related to computerized methods for mitigating "settlement risk" in financial transactions, particularly the risk that only one party to an agreed-upon financial exchange will satisfy its obligation. More specifically, the claims were designed to facilitate the exchange of financial obligations between two parties by using a computer system as a third-party intermediary, which created "shadow" account ledgers that mirror the balances in the parties' real-world bank accounts. The intermediary updated the shadow records

in real time as transactions were entered allowing "only those transactions for which the parties' updated shadow records indicate sufficient resources to satisfy their mutual obligations."<sup>3</sup>

The District Court held that all the claims were patent-ineligible because they were directed to the abstract idea of "employing a neutral intermediary to facilitate simultaneous exchange of obligations in order to minimize risk." A panel of the appeals court reversed the lower court's decision by a 2-1 vote. The Federal Circuit, however, granted *CLS Bank*'s petition for an en banc rehearing, vacating the previous decision. The en banc rehearing resulted in a deeply fractured 10-judge panel on the Federal Circuit, producing seven separate opinions. The en banc panel ultimately upheld the District Court's decision that *Alice*'s computer-system claims were not patent-eligible, the five-member plurality holding that the petitioner's claims were directed to an abstract idea.

Despite the Federal Circuit's clear struggle in coming to a consensus regarding how to determine patentable subject matter under §101, the Supreme Court, in a brief opinion, simply reiterated its two-part test set forth in *Mayo Collaborative*. First, courts must determine whether the claims at issue are directed to a patent-ineligible concept; and second, courts must consider whether the elements of each claim, both "individually" and "as an ordered combination," work to "transform the nature of the claim" into a patentable application.

In applying the first step of the *Mayo* test, the court determined that the claims were "drawn to the abstract idea of intermediated settlement." The court found that intermediated settlement is "a fundamental economic practice long prevalent in our system of commerce," and thus an "abstract idea" beyond §101's scope. While the court did not provide detailed guidance as to how to specifically identify or characterize an abstract idea, the court did list a number of examples of abstract ideas that it had previously held patent-ineligible including *Gottschalk v.*

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*Benson*'s "algorithm for converting binary-coded decimal numerals into pure binary form," *Parker v. Flook*'s "mathematical formula for computing 'alarm limits' in a catalytic conversion process," and, most recently, *Bilski v. Kappos*' "method for hedging against the financial risk of price fluctuations."<sup>4</sup>

Thus, while the court's guidance regarding "abstract ideas" was conceptual, it reiterated its Mayo precedent and provided lower courts, and future litigants, with clear guideposts as to how to tackle "abstract ideas."

In applying the second step of the test, the court found that the claims "fail[ed] to transform [the] abstract idea into a patent-eligible invention." The court clarified that "the mere recitation of a generic computer cannot transform a patent-ineligible abstract idea into a patent-eligible invention." It continued, "[g]iven the ubiquity of computers... wholly generic computer implementation is not generally the sort of additional featur[e] that provides any practical assurance that the process is more than a drafting effort designed to monopolize the [abstract idea] itself."

The court's guidance regarding the second step of the Mayo test was again instructive. The court noted that the claims performed by the computer at each step of the process were "[p]urely conventional." The claims did not: (1) "purport to improve the functioning of the computer itself;" nor did they (2) "effect an improvement in any other technology or technical field."

### Indefiniteness

The Supreme Court's clear directives to the Federal Circuit continued in its opinion in *Nautilus v. Biosig Instruments*.<sup>5</sup> In that case, Justice Ruth Bader Ginsburg, again writing for a unanimous court, rejected the Federal Circuit's standard for "indefiniteness" under §112 ¶2 of the Patent Act.

The claims at issue in *Nautilus* were for a heart monitor apparatus comprising a cylindrical bar with two handgrips, each of which contained two electrodes. The claim language at issue stated that each pair of electrodes was "in [a] spaced relationship with each other." Biosig filed a patent infringement suit in the District Court for the Southern District of New York, alleging that *Nautilus*, without obtaining a license, sold exercise machines infringing Biosig's patent claims. *Nautilus* filed for summary judgment, which the District Court granted on the ground that the claim term "in a spaced relationship with each other" failed §112 ¶2's definiteness requirement.

On appeal, the Federal Circuit reversed, concluding that a patent claim passes the §112 ¶2 threshold so long as the claim is "amenable to construction," and the claim, as construed, is not "insolubly ambiguous."<sup>6</sup> The court asserted that a skilled artisan could infer from the claim language, specification, and prosecution history certain limitations on the spaced relationship necessary to maintain the heart-monitoring functionality.

The Supreme Court, however, rejected the Federal Circuit's "insolubly ambiguous" language, instead ruling that §112 ¶2 requires that "a patent's claims, viewed in the light of the specification and the prosecution history, inform those skilled in the art about the scope of the invention with *reasonable certainty*." (emphasis added). In formulating this "reasonable certainty" standard, the court recognized that §112 ¶2 entails a "delicate balance" between "the inherent limitations of language" on the one hand and "the need to be precise enough to apprise the public of what is still open to them," on the other.

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Regarding policy, the court warned that a less precise standard would encourage patent applicants to "inject ambiguity into their claims." The court, moreover, sought to articulate a standard that would provide courts, as well as patent applicants and litigants, with more precise and clearly defined guidance. The court emphasized that the Federal Circuit's "amenable to construction" and "insolubly ambiguous" standards could have, and have, "bre[d] lower court confusion." In articulating its decision to replace the "amenable to construction" and "insolubly ambiguous" standards with the "reasonable certainty" standard, the court stressed that the "insolubly ambiguous" standard "can leave courts and the patent bar at sea without a reliable compass."

Although the court did not apply the "reasonable certainty" test, instead remanding to the Federal Circuit for reconsideration, it hinted at what the "reasonable certainty" test might in practice require. The court noted that while terms like "insolubly ambiguous" may "not be felicitous," the Federal Circuit's "fuller explications of the term 'insolubly ambiguous'" may perhaps come closer to "tracking the statutory prescription." The court suggested that this standard "mandates clarity, while recognizing that absolute precision is unattainable."

### Divided Infringement

In *Limelight Networks v. Akamai Technologies*,<sup>7</sup> the Supreme Court similarly struck down the Federal Circuit's ruling that induced infringement under 35 U.S.C. §271(b) could occur when a defendant performed some, but not all, steps of a patented method, and encouraged others to carry out the other patented method steps. In *Limelight*, patentee Massachusetts Institute

of Technology and its exclusive licensee Akamai Technologies filed suit against *Limelight Networks* in the District Court for the District of Massachusetts, claiming infringement of a patent which claimed a method for delivering website content to Internet users. An en banc panel for the Federal Circuit reversed the District Court's ruling that §271(b) induced infringement did not occur, holding that liability can arise when a defendant carries out some steps constituting a method patent and encourages others to carry out the remaining steps, even if no one would be liable as a direct infringer in such circumstances.<sup>8</sup> The Supreme Court reversed, holding that induced infringement under §271(b) cannot exist if performance of all claimed steps "cannot be attributed to a single person."

The Supreme Court's opinion was highly critical of the Federal Circuit's approach to interpreting infringement under method patents, stating the Federal Circuit "fundamentally misunderstand[ed] what it means to infringe a method patent." The court explained that if it were to adopt the Federal Circuit's reasoning, induced infringement could be predicated on acts not attributable to a single party, and would "deprive §271(b) of ascertainable standards" and would require "courts to develop two parallel bodies of infringement law," one for liability for direct infringement, and another for liability for inducement. Instead, the court indicated that it would not upset its precedent and judicially create liability for the inducement of non-infringing conduct, "where Congress has elected not to extend that concept."

### Conclusion

The Supreme Court's term this year was ground-breaking, both in terms of the number of patent cases it handled and the uniform nature with which it dispatched its directives. Although the full impact of this term's decisions remains to be fully absorbed, the court has pointed the Federal Circuit in a clear direction.

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- 134 S. Ct. 2347 (2014).
- John M. Golden, "The Supreme Court as 'Prime Percolator': a Prescription for Appellate Review of Questions in Patent Law," 56 UCLA L. Rev. 657 (2009).
- Alice*, 134 S. Ct. at 2352.
- Gottschalk v. Benson*, 409 U.S. 63 (1972); *Parker v. Flook*, 437 U.S. 584 (1978); *Bilski v. Kappos*, 561 U.S. 593 (2010).
- 134 S. Ct. 2120 (2014).
- Biosig Instruments v. Nautilus*, 715 F.3d 891, 898 (Fed. Cir. 2013).
- 134 S. Ct. 2111 (2014).
- Akamai Technologies v. Limelight Networks*, 692 F.3d 1301 (Fed. Cir. 2012).