

**Paul Conover**paul.conover@knobbe.com
+1 949 760 0404**Philip Nelson**philip.nelson@knobbe.com
+1 949 760 0404

The U.S. Supreme Court's Increasing Involvement In Patent Law

By Paul Conover & Philip Nelson

In 1982, the U.S. congress formed a new specialised appeals court, the Court of Appeals for the Federal Circuit, or “CAFC,” and transferred responsibility for patent appeals from the various regional courts of appeal to this new court. One goal of establishing the CAFC was to bring uniformity and predictability to U.S. patent law, since consolidating responsibility for patent law at the CAFC would create a single line of binding precedents in patent cases. The Supreme Court still had discretion to hear appeals from the CAFC and modify its precedents, as required by the U.S. Constitution; however, for decades, the Supreme Court rarely exercised this discretion, allowing the new court to effectively have the final say on patent law. But in the last 10 years, all of this has changed dramatically. The Supreme Court has increased by more than 300% its review of patent cases over the last decade, as a percentage of its total number of decided cases, in comparison with each of the preceding three decades.



Moreover, patent law appears to be an unusual realm of broad agreement between justices of the U.S. Supreme Court, and recent cases show a perception by the justices that the lower courts, including the CAFC, had taken some wrong turns in their interpretations and applications of U.S. patent law. These two factors—agreement between Supreme Court justices, but disagreement with lower courts—taken together, can help explain the recent strong interest in patent cases at the Supreme Court.

The Supreme Court's patent opinions in 2014 provide numerous examples of both factors. Specifically, it appears that the Supreme Court strongly believed that the lower courts had empowered patent owners too much, since all of the Supreme Court's patent rulings in 2014 were unanimous, and each seems intended to limit the rights of patent owners or reduce the bargaining leverage that patent owners can exert against alleged infringers. In view of the long tenure of justices on

the Supreme Court, this trend will likely continue.

The most important patent ruling from the Supreme Court this year addresses what types of inventions are eligible for patent coverage. In *Alice Corporation PTY. Ltd. v. CLS Bank International*, the Supreme Court unanimously struck down a patent covering the use of a computer system to perform a specialised program for mitigating risk in complex financial transactions.

The Court recognised that U.S. patent law broadly authorises patent coverage for “any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof.” However, referring to its earlier legal precedent, the Court emphasised that this expansive list of patentable items should not be interpreted to cover “laws of nature, natural phenomena, and abstract ideas,” or else patents could improperly “pre-empt” broad swaths of technology or take away the basic tools of scientific and technological work, thereby impeding innovation by others. Applying this reasoning,

the Court concluded that Alice's patent had been granted in error and revoked it.

Unfortunately, the Alice case did not provide much general guidance in identifying which types of computer-implemented inventions are patentable and which are not. It is clear that the Court did not forbid patent coverage for all computer-based inventions. For example, it referred with approval to an earlier Supreme Court case in which a computer-implemented process for curing rubber was held to be patentable, but the Court emphasised that this invention utilised a “thermocouple” to gather temperature data inside of the rubber mold, suggesting that including real-world hardware in a computer patent will help demonstrate patent worthiness. The Court also left open the possibility of patent coverage for pure computer methods that do more than merely implement concepts that are “[p]urely conventional” and that are not “well-understood, routine, conventional activit[ies] previously known to the industry.” But these generalities from the Supreme Court do not help much in practical applica-

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tion, requiring inventors and patent attorneys to carefully craft computer patents with a discerning interpretation of various phrases from the Alice case to try to predict how future court cases in the Supreme Court and lower courts will evolve.

The Supreme Court also provided direction this year about when a prevailing party to a patent lawsuit can require the losing party to pay its attorney's fees. In U.S. litigation, the general rule regarding attorney's fees is that each side pays for its own attorneys, regardless of the outcome of a lawsuit. The patent law, however, has long required a loser in a patent case to pay the attorney's fees of the opposing party in "exceptional cases." In seeking to apply this vague phrase, the lower courts had created a series of rules that required a winning party to support a claim for reimbursement of its attorney's fees by presenting "clear and convincing" evidence of

"material inappropriate conduct" or an "objectively baseless case" or "subjective bad faith." This standard was considered so difficult to prove that it was very rarely requested and even more rarely granted.

This year, in *Octane Fitness, LLC v. Icon Health and Fitness, Inc.*, the Supreme Court unanimously wiped away all of those rules, adopting instead a simple standard that a party's negative actions must "stand out from others" if that party is to pay its opponents attorney's fees. A winning party may now support a claim for attorney's fees without any higher evidentiary burden by merely showing that the losing party's case stands out in the lack of "strength of a party's litigation position" or the "unreasonable manner in which the case was litigated." This lower standard for recovering attorney's fees is significant for patent owners who may be thinking about filing patent infringement cases prior to full diligence. If the patent

owner loses, an accused infringer can in more situations require the patent owner to pay its attorney's fees, a very serious downside risk.

The Supreme Court also imposed a new standard this year on the level of specificity required in patents. U.S. patent law requires that patents must "particularly point out and distinctly claim the subject matter which the applicant regards as [the] invention." In applying this standard, the lower courts had tended to give patent drafters the benefit of the doubt, allowing a patent to survive if there were any possible interpretation of the language that could be understood by skilled people in the field, such that it was not "insolubly ambiguous."

However, in *Nautilus, Inc. v. Biosig Instruments, Inc.*, the Supreme Court unanimously changed the application of this law. The new standard created by the Court is that a patent must "in-

form, with reasonable certainty, those skilled in the art about the scope of the invention," which will undoubtedly lead to more attacks against the clarity of language in patents.

These new rulings from the Supreme Court in 2014, each delivered by a unanimous court, show that patents will be scrutinised more critically by the courts and that patent-infringement lawsuits will become more risky endeavors for patent owners. This trend also forebodes an increasing level of intervention by the Supreme Court in future patent cases, and therefore more uncertainty in U.S. patent law in the near term. Anticipating shifting rules from the Supreme Court will require more sophisticated drafting of patent applications with thoughtful consideration of evolving judicial precedents, more careful predictions of how inventions will be copied by others, and exceptionally well-informed litigation strategies.

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Paul Conover is a partner in the Orange County, California office of Knobbe, Martens, Olson & Bear, LLP, one of the largest intellectual property firms in the United States, where he has practiced for over 17 years. Mr. Conover has extensive experience in obtaining patents, strategic patent management, intellectual property licensing, intellectual property due diligence, patent design-around efforts, and patent enforcement, including multiple jury trials in patent-infringement cases. He holds a law degree and a Bachelor of Science degree in Physics. He has represented clients in many different technical areas, including in the medical device, automotive, and consumer products industries.

Philip Nelson is also a partner at Knobbe Martens Olson & Bear LLP in Orange County. Mr. Nelson advises on patent portfolio strategy, intellectual property diligence, and agreements. He helps companies construct, refine, defend, and monetize their U.S. and foreign patent portfolios, both organically and through strategic acquisition and licensing. He has experience litigating for both plaintiffs and defendants, and in handling matters before the Patent Trial and Appeal Board of the U.S. Patent Office. With a background in physics, he advises clients in a variety of technologies, including optics, medical devices, and computer software.

