

INNOVATION ALLIANCE

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TILTING THE BALANCE:

A Decade of Supreme Court Case Law
Makes it Harder to Enforce U.S. Patent Rights
and Easier to Copy U.S. Innovations

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Over the past decade, Supreme Court decisions have made it more difficult for patent holders to enforce their patent rights, and as a result, easier for others, including competitors in China, to copy American innovations.

The Supreme Court's decisions come on top of several major legislative and administrative measures adopted in recent years that have weakened or curtailed patent rights, including implementation of provisions of the America Invents Act of 2012 (AIA), such as the inter partes review proceedings before the Patent Trial and Appeal Board; the heightening of pleading standards by the Judicial Conference of the United States in 2015; and the crackdown on patent demand letters by the Federal Trade Commission and state attorneys general.

Taken together, these decisions and measures have fundamentally changed the landscape of the U.S. patent system and tilted the balance against the interests of innovators. The U.S. patent system is no longer considered the gold standard among patent regimes. In fact, in 2017, the U.S. fell to 10th place in the Chamber of Commerce international ranking of patent system strength, marking the first time that the U.S. has not ranked #1.¹

The unfriendly climate for patent holders has contributed to an increasing movement of venture capital funding and entrepreneurial and startup activity out of the U.S. and into the hands of foreign competitors. For example, the U.S. share of global venture capital fell from 83% in 1996 to 54% in 2015.² And the rate of U.S. startup formation fell to the second lowest level on record in 2014.³

This reality argues against sweeping patent litigation reform legislation and underscores the need to restore a more meaningful balance in the law in favor of patent owners, particularly independent inventors and startups.

VALIDITY: MAKING IT EASIER FOR CHALLENGERS TO INVALIDATE PATENTS

Over the past decade, the Supreme Court's decisions related to the patent code's validity requirements have made it easier for challengers to invalidate patents. These cases have limited the subject matter eligible for a patent, lowered the standard for invalidating patents on the grounds of obviousness, and lowered the standard for invalidating patents on the grounds of indefiniteness.

Limiting the subject matter eligible for a patent

On four separate occasions since 2010, the Supreme Court has invalidated patents on the ground that they do not claim subject matter that is eligible for a patent under 35 U.S.C. § 101. These four decisions have fundamentally upended the historic role of § 101, which had previously been understood to provide a general statement of the subject matter eligible for patents, but not the specific conditions of novelty and non-obviousness – novelty and non-obviousness were instead considered under §§ 102 and 103, respectively. Additionally, under the Supreme Court’s earlier jurisprudence, an invention that involved a physical “machine” or that “transformed” an object or composition of matter, was patentable subject matter. The Court’s recent four decisions interpreting § 101 have upset that longstanding settled law by conflating the § 101 inquiry with the statutory tests of novelty and non-obviousness, and in doing so, have dramatically narrowed the scope of patent-eligible subject matter and made the application of § 101 uncertain and subjective.

Bilski v. Kappos. In *Bilski*, the first of the four recent decisions addressing patent-eligible subject matter, the Supreme Court ruled that a patent on a method of hedging risks in commodities trading was not patent-eligible because it consisted of only an abstract idea. In so ruling, the Court reaffirmed that the so-called machine-or-transformation test is a helpful tool in the analysis, but added a reservation that it is not the only test. It was through this latter reservation that *Bilski* began a process of narrowing eligible subject matter and unsettling what had previously been a clear test for determining which subject matter was eligible for a patent and which was not.

Mayo Collaborative Services v. Prometheus Laboratories Inc. In *Mayo*, the Court further limited subject matter eligible for a patent by holding that a method for continuously adjusting the dose of a man-made cancer chemotherapy drug to treat autoimmune diseases was unpatentable on the theory that the invention only covered a “law of nature.”

Association for Molecular Pathology v. Myriad Genetics Inc. The *Myriad* case involved *Myriad Genetics’* patents covering lab copies of breast cancer genes that the company “isolated” for study or diagnosis, but not the gene as it exists in a human body. In its decision, the Supreme Court held the patent claims covering these isolated DNA codings invalid for failure to comply with § 101. The nature of the decision left inventors with difficulty in knowing how to prepare their patents in a way that will be valid and with difficulty in predicting how courts will treat them.

Alice Corp. Pty. Ltd. v. CLS Bank Int'l. The Alice case concerned Alice Corp's patents on its invention of a computer-implemented technique for preventing traders in a market from trading past their own solvency, so that no trader could create losses so large as to take down other institutions. In its decision, the Supreme Court invalidated the patents on the theory that the claims were directed to an abstract idea and did not involve an "inventive concept" that amounts to significantly more than the abstract idea itself. This departed from long-standing precedent and has resulted in the lower courts having immense difficulty applying Alice in any consistent way, and even greater difficulty identifying computer-implemented inventions that survive the Alice test.

In the wake of these four § 101-related cases, U.S. patents have also been invalidated at an unprecedented rate. An April 2016 analysis found that since Alice, over 250 federal court decisions considered whether covered subject matter is patent eligible, and more than 70 percent of those decisions found the patent invalid.⁴ Patents in computer-implemented technologies, medical testing and diagnosis, and drug administration have been particularly affected. The Federal Circuit has expressed its concern with Mayo, Myriad, and Alice line of cases, and in 2015, asked the Supreme Court to reconsider that line. To date, however, the Supreme Court has declined to do so.

Lowering the standard for proving obviousness

Another Supreme Court decision lowered the standard for patent challengers to invalidate patents on the grounds that an invention is obvious.

KSR Int'l Co. v. Teleflex Inc. In KSR, the Supreme Court rejected the test that the Court of Appeals for the Federal Circuit had previously used for assessing whether a patented invention is obvious. Prior to KSR, a patent challenger needed to identify a precise "teaching, suggestion or motivation" in the prior art that would have led a person of ordinary skill in the art to the claimed invention, supported by substantial evidence. The Supreme Court rejected this "rigid" test, ruling that "[t]he analysis need not seek out precise teachings directed to the specific subject matter of the challenged claim." By taking a less rigorous view of what evidence must be advanced by a patent challenger to prove obviousness, KSR has made it easier for patent challengers to invalidate patents. Before KSR, the Federal Circuit found patents obvious about 40 percent of the time. In the three years following KSR, the Federal Circuit found patents obvious 57 percent of the time. Additionally, while district courts found patents obvious in only 6 percent of cases prior to KSR, that number jumped to over 40 percent in the three years following KSR.⁵

Lowering the standard for proving indefiniteness

The Supreme Court has also moved to lower the standard for patent challengers to invalidate patents on the grounds that a patent is indefinite.

Nautilus Inc. v. Biosig Instrument, Inc. In its *Nautilus* decision, the Supreme Court modified the test for assessing whether a patent meets the patent code's definiteness requirement. Under the Federal Circuit's previous standard, a patent could be found invalid as indefinite only if the patent's claims were "insolubly ambiguous" or "not amenable to construction," i.e., that there was no plausible discernible meaning to the patent. The Supreme Court rejected that test, holding that a patent is indefinite if the scope of the invention is not reasonably certain to a person of ordinary skill in the art in light of the patent's specification and prosecution history. This change in the indefiniteness standard has further facilitated invalidity challenges.

Inter Parties Review: Using challenger-favorable "broadest reasonable interpretation" rather than the standard that applies in district court

The Supreme Court has also made it easier for patent challengers to invalidate patents under the AIA-created inter partes review proceedings before the Patent Trial and Appeal Board (PTAB).

Cuozzo Speed Techs., LLC v. Lee. In *Cuozzo*, the Supreme Court held that the U.S. Patent and Trademark Office can interpret patents in the broadest reasonable manner in inter partes review proceedings before the PTAB, rather than the standard used by federal courts. Because the broadest reasonable interpretation of a patent claim may be broader than its ordinary meaning, *Cuozzo* makes it easier for challengers to assert a patent's invalidity, because a broader patent scope often means a broader range of prior art is available to attack a patent's validity.

More generally, the inter partes review procedure is part of a changing legal landscape that has made it easier to invalidate patents. Patent challengers in inter partes review face a lower burden of proof for establishing invalidity than in federal court. A patent can be invalidated in inter partes review with just a preponderance of the evidence, rather than clear and convincing evidence. And, unlike federal court, challengers don't need to have standing to initiate an invalidity challenge. Since 2012, over 3,000 petitions seeking inter partes review have been filed, with about 30 percent of those proceedings reaching a final written decision. A recent analysis by the Patent Office revealed that in 72 percent of the cases that have reached a final written decision, the PTAB has found all challenged claims unpatentable.⁶

INFRINGEMENT: MAKING IT HARDER TO PROVE INFRINGEMENT

Supreme Court decisions have also made it harder for patent owners to prove infringement.

Global-Tech Appliances, Inc. v. SEB, S.A. In *Global-Tech*, the Supreme Court ruled on the level of intent required to give rise to liability for induced infringement, when a party urges, encourages, or aids another to infringe a patent. Prior to *Global Tech*, it was unsettled whether the intent requirement was satisfied merely by a showing that the inducer intended to induce the acts that ultimately amount to direct infringement, or whether the inducer instead must also know that those acts infringe the patent. In *Global-Tech*, the Supreme Court held that the latter was required in order to prove induced infringement. *Global-Tech* makes proving induced infringement more difficult than it would be under an alternative interpretation in which a showing of intent was not required.

Limelight Networks Inc. v. Akamai Technologies, Inc. In *Akamai*, the Supreme Court ruled that a defendant who performs some steps of a patented method while encouraging others to perform the remaining required steps cannot be liable for induced infringement if no single party directly infringes the patent. The *Akamai* ruling has raised questions about the extent to which patent holders will be able to prove infringement of claims that multiple parties must practice to carry out (e.g., a Wi-Fi patent that requires different parties to send different signals to practice the claim).

Quanta Computer, Inc. v. LG Electronics. In *Quanta*, the Supreme Court expanded the doctrine of patent exhaustion, also known as the first sale doctrine, as a defense to patent infringement. The doctrine of patent exhaustion provides that patent rights are “exhausted” following the unrestricted, authorized sale of a product, meaning that a patent owner cannot enforce a patent against that product following such an authorized sale. The Supreme Court ruled that the patent exhaustion defense has a broader scope than the Federal Circuit had previously acknowledged, holding that the doctrine applied not only to patent claims covering devices, but also methods. The Court further ruled that the sale of an item can exhaust patent rights even if that item does not practice all elements of the patent. In doing so, the Court made it easier for a patent owner’s rights to be exhausted, and thus, more difficult for patent owners to enforce their patents against unlicensed companies further down a supply chain.

REMEDIES: MAKING IT MORE DIFFICULT TO OBTAIN INJUNCTION

The Supreme Court has also made it more difficult for patent owners to obtain an injunction, a judicial order restraining the continued use or sale of an invention, when infringement of the patented invention is found. The Court has also made it more difficult to obtain royalty payments in some cases.

eBay, Inc. v. MercExchange LLC. In *eBay*, the Supreme Court held that injunctions should not issue automatically when a valid patent is infringed, rejecting the general rule that, absent exceptional circumstances, courts should issue permanent injunctions when patent infringement is found. The decision raised the bar for patent owners to prove that they are entitled to an injunction after they prevail, making sales bans harder to obtain. Since the Court decided *eBay*, the rate of permanent injunctions granted as a percentage of cases filed has dropped by over 85 percent.⁷

Kimble v. Marvel Entertainment, LLC. In *Kimble*, the Supreme Court held that a patent holder cannot enforce a patent licensing agreement that provides for royalty payments to continue after the term of the patent expires, even when both contracting parties intended for such a result. This decision interferes with the ability of parties to negotiate licensing agreements that reflect the true value of a patent.

ATTORNEY'S FEES: MAKING IT EASIER FOR COURTS TO AWARD ATTORNEY'S FEES

The Supreme Court has also moved to give judges broader discretion to award attorney's fees to the prevailing parties in patent cases, potentially dissuading some legitimate infringement suits from being filed, particularly by smaller patent owners who may lack the resources to pay attorney's fees if unsuccessful.

Octane Fitness LLC v. Icon Health & Fitness Inc. In *Octane Fitness*, the Supreme Court made it easier for courts to award attorneys' fees to the prevailing party in patent infringement cases, rejecting the Federal Circuit's rule that prevailing parties could obtain attorneys' fee awards only when the losing party's position was "objectively baseless" with "subjective bad faith." The Court ruled that, instead, a prevailing party may recover attorneys' fees if the case "stands out from others." In a companion case decided the same day, the Court also made it more difficult for the Federal Circuit to overturn lower courts' attorney fee awards, holding that the court of appeals must review trial court fee awards under a deferential standard. The *Octane Fitness* decision has changed the landscape for attorneys' fees. In the one year prior to the decision, courts granted only 13 percent of defendants' motions for attorneys' fees in patent cases. That rate nearly tripled in the year following *Octane Fitness*.⁸

¹ Global Intellectual Property Center, "The Roots of Innovation," U.S. Chamber International IP Index, Fifth Edition, February 2017.

² National Venture Capital Association, "The State of Venture Capital & the Entrepreneurial Ecosystem," January 2016.

³ Jeffrey Sparshott, "Sputtering Startups Weigh on U.S. Economic Growth," Wall Street Journal, October 23, 2016.

⁴ Jason Rantanen (guest post by Bart Eppenauer), "Section 101 - Pivotal Moment for Clarity on Patent Subject Matter Eligibility," Patently-O Blog, April 21, 2016.

⁵ Ali Mojibi, "An Empirical Study of the Effect of KSR v. Teleflex on the Federal Circuit's Patent Validity Jurisprudence," 20 Alb. L.J. Sci. & Tech. 559, 582-583 (2010).

⁶ USPTO, Patent Trial and Appeal Board Statistics, April 30, 2016.

⁷ Kirti Gupta & Jay P. Kesan, "Studying the Impact of eBay on Injunctive Relief in Patent Cases," July 31, 2016, at 16.

⁸ Fed. Cir. Bar Assoc., "A Comparison of Pre-Octane and Post-Octane District Court Decision on Motions for Attorneys' Fees Under Section 285."

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The Innovation Alliance represents innovators, patent owners and stakeholders from a diverse range of industries that believe in the critical importance of maintaining a strong patent system that supports innovative enterprises of all sizes. Innovation Alliance members can be found in large and small communities across the country, helping to fuel the innovation pipeline and drive the 21st century economy.

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