

PATENT FILE

With the US Innovation Act stalled, will courts rein in NPEs?



Robert A King,
Hunton & Williams

In the absence of federal legislation, Hunton & Williams' **Robert A King** examines how courts are addressing the problem of patent trolling

Non-practising entities, referred to as 'NPEs or so-called patent trolls', leverage the high cost of defending a patent infringement action to entice defendants to settle marginal, and even frivolous, actions for much less than the cost of mounting a defence. It is estimated that in 2011, patent trolls cost \$29bn in legal and licensing fees in the US.¹ And that number does not take into account the lost opportunity costs for the defendants. A recent study by PricewaterhouseCoopers found that NPEs now account for 67% of all patent infringement lawsuits filed, a 28% increase from five years ago.²

Last year, patent reform in this area seemed imminent. In June 2013, President Obama issued five executive actions directing the US Patent and Trademark Office (USPTO) to take steps that would increase transparency in the patent system. In February 2014, he followed these initial orders with three additional executive actions directed toward increasing the quality of patents, including 'crowdsourcing' prior art. Congress acted too; the Innovation Act (HR 3309), sponsored by Representative Bob Goodlatte, was introduced in the House of Representatives in October 2013. With a few amendments, the bill overwhelmingly passed the House, 325-91, on 5 December. Several other bills were pending in the Senate, including the Patent Abuse Reduction Act of 2013 (S 1013), the Patent Integrity Act of 2013 (S 1612), and the Patent Transparency and Improvements Act of 2013 (S 1720). With broad, bipartisan support in both chambers, reform appeared almost certain.

Although provisions in the Innovation Act and the executive orders impact all patent

owners, the real target was the patent troll. For example, the Innovation Act included enhanced pleading requirements, as well as fee-shifting to the prevailing party – unless the position and conduct of the non-prevailing party was reasonably justified in law and fact. For myriad reasons, however, the legislation stalled shortly after being introduced in the Senate, and in May 2014, Senate Judiciary Committee chair Patrick Leahy removed patent reform from the committee's agenda. As a result, laws curbing the activities of patent trolls became increasingly unlikely in 2014.

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In the wake of Alice

Then the Supreme Court of the US (SCOTUS) moved the issue forward. On 19 June 2014, the court issued its decision in *Alice Corp Pty Ltd v CLS Bank Intl*, expanding the reach of 35 USC Section 101 to clarify that “abstract ideas” – even if implemented on a computer – are not patent-eligible.³ The USPTO promptly issued preliminary examination instructions to provide the examining corps with post-Alice guidelines, which resulted in the immediate onslaught of 35 USC Section 101 rejections in pending applications. The USPTO even reviewed applications that had been allowed, and withdrew allowances if there was the possibility that an “abstract idea” was being claimed. The guidelines, like the Alice decision itself, are vague; many office actions simply allege that the claims are directed to an “abstract idea”, without even identifying the idea, and with little or no substantive analysis.

Shortly after issuing its preliminary examination instructions, the USPTO published a request for comments and extension of comment period on examination instruction and guidance pertaining to patent-eligible subject matter. The patent office received comments from intellectual property organisations, including the American Intellectual Property Law Association, the Institute of Electronics and Electrical Engineers and the Intellectual Property Owners Association, as well as companies, law firms and individuals. What revisions, if any, might be made to the preliminary examination instructions as a result of the comments received is a topic of much speculation.

While clearly impacting patent prosecution, Alice has already had, and will continue to

Robert A King is a partner with Hunton & Williams in Atlanta, specialising in intellectual property and patent law. King advises clients in patent prosecution and litigation, avoidance of patent rights of others and brand protection in technology areas including computer hardware and software, mechanical devices and medical devices.

have, a significant impact on patent litigation, with a potentially greater impact on patent trolls. Shortly after *Alice*, SCOTUS vacated and remanded *WildTangent, Inc v Ultramercial, LLC* – in which the Federal Circuit had found patent eligibility – back to that court “for further consideration in light of” *Alice*.⁴ In *Digitech Image Technologies, LLC v Electronics For Imaging, Inc*, the Federal Circuit applied *Alice* to find the claims were directed to an abstract idea.⁵ Digitech’s claims were directed to a “device profile for describing properties of a device in a digital image reproduction system” and comprised data that described colour and spatial information content for an image. Consequently, the Federal Circuit has not ruled on the patentability of a *Bilski*-style claim – one that includes hardware components such as computer processors, memories and interfaces. The outcome of such a review will likely depend on the panel that hears the case, and another *en banc* review would not be unexpected. Nor has there been a decision about whether a novel and non-obvious method could be patentable if performed using a computer processor. In the wake of *Alice*, those issues are ripe for decision.

What remains to be seen is how district courts handle cases post-*Alice*. The vagueness of the decision provides little to no guidance on what exactly an “abstract idea” is, giving courts (and juries) discretion in determining whether a patent is valid. Disparate results could likely be based largely on the perception of the plaintiff; for example, is the plaintiff a bona fide business, or is it simply a NPE attempting to cash in on a flawed system? Results could also be based on the public’s perception of the technology that is claimed – are internet-based inventions less worthy of patent protection because computers are such an ubiquitous part of our lives? It seems unlikely the courts will provide universal guidance on what an abstract idea is or isn’t, and what amounts to “significantly more” than an abstract idea.

Nonetheless, *Alice* is not the only recent SCOTUS case that will impact the patents NPEs may attempt to assert, or the activities in which they will engage. For example, in *Nautilus, Inc v Biosig Instruments, Inc*, the court rejected the Federal Circuit’s low threshold for finding claim definiteness, holding instead that “a patent is invalid for indefiniteness if its claims, read in light of the specification delineating the patent, and the prosecution history, fail to inform, with reasonable certainty, those skilled in the art about the scope of the invention.”⁶ The Federal Circuit had found claims definite so long as the claims are “amenable to construction”, and, as construed, are

not “insolubly ambiguous”. In *Limelight Networks, Inc v Akamai Technologies, Inc*, the high court held that there cannot be induced infringement under 35 USC Section 271(b) when there has been no direct infringement under 35 USC Section 271(a) or any other statutory provision.⁷ And in *Octane Fitness v Icon Health and Fitness*, the justices rejected the Federal Circuit’s “rigid and mechanical formulation” in determining whether to shift fees. Instead, the district courts are to make this determination on a “case-by-case exercise of their discretion, considering the totality of the circumstances”.⁸ Despite this, unless patent defendants have a meaningful opportunity to dispose of a case on summary judgment early in the proceeding, they may be left only with the dilemma of a moral but costly victory. Defendants may be forced to invalidate a patent after a substantial expenditure of resources, or license a patent that may unquestionably claim an abstract idea at a far lesser cost. The reform that is needed is within the jurisdiction of congressional lawmakers, and it seems they are unwilling to act, at least for the time being.

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State action

Unlike Congress, however, attorney generals (AG) for several states have moved swiftly to protect their businesses from patent trolls. For example, in Vermont, the attorney general has sued a patent troll that sent demand letters to Vermont businesses, alleging the company was engaging in unfair and deceptive trade practices under state law and that the letters “contained threatening, false, and misleading statements”.⁹ Nebraska’s attorney general sent a cease-and-desist letter to a law firm that was issuing demand letters to businesses that could violate the state’s Consumer Protection Act and Uniform Deceptive Trade Act. The attorney general in Minnesota settled with a NPE to stop a demand letter campaign unless authorised to resume by the AG.¹⁰ And Wisconsin has enacted a law (Wis Stat Section

100.197 (2014)) for “patent notifications”, that requires the disclosure of specific information including the patent number, name and address of the patent owner, all persons having a right to enforce the patent, and a factual analysis of the infringement. While these actions will have some impact on patent trolls, it is unclear just how much such localised actions will impact patent trolls nationwide.

Comment

As patent trolling continues to have a costly impact on US businesses, what is emerging based on *Alice* and the Federal Circuit’s reading of the decision is a patch-work of opinions and case law that provides precedent but no real clarity. State actions, while valuable within specific instances and state courts, add to the variety of potential remedies but are limited in scope. A solution that brings consistency to the application of patent law to reduce potential for patent trolling actions should be a priority for Congress.

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Footnotes

1. Bessen, James E and Meurer, Michael J, The direct costs from NPE disputes, 99 *Cornell L Rev* 387, (2014).
2. Brian Fung, Patent trolls now Account for 67% of all new patent lawsuits, *The Washington Post*, 15 July 2014.
3. See *Alice Corp Pty Ltd v CLS Bank Intl*, 134 S Ct 2347 (2014).
4. *WildTangent, Inc v Ultramercial, LLC*, 134 S Ct 2870 (2014).
5. *Digitech Image Technologies, LLC v Electronics For Imaging, Inc* No 2013-1600, -1601, -1602, -1603, -1604, -1605, -1606, -1607, -1608, -1609, -1610, -1611, -1612, -1613, -1614, -1615, -1616, -1617, -1618, 2014 WL 3377201 at * 3 (Fed Cir 11 July 2014).
6. *Nautilus, Inc v Biosig Instruments, Inc*, 134 S Ct 2120, 2123 (2014).
7. *Limelight Networks, Inc v Akamai Technologies, Inc*, 134 S Ct 2111, 2114 (2014).
8. *Octane Fitness v Icon Health and Fitness*, 134 S Ct 1749, 1756 (2014).
9. *State of Vermont v MPHJ Tech Inv, LLC*, Docket No 282-5-13 (Vt Superior Ct, 2012).
10. Timothy B Lee, Nebraska’s attorney general has declared war on patent trolls, *The Washington Post*, 13 September 2014.