



# The Supreme Court Gets Intellectual

A look at how the Court is reshaping IP law in significant ways

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In recent years, the United States Supreme Court has had a penchant for intellectual property (IP). The Court has taken up IP cases at a pace unmatched in decades and has reshaped IP jurisprudence in key areas. Coupled with the enactment of the America Invents Act in 2011, the rate of change has been swift and unfamiliar, and has commanded the attention of IP stakeholders like seldom before. Below, the authors look at some of the significant IP cases decided by the Court in the past few years.

## Patent eligibility of computer-implemented inventions

A patent claim is the part of a patent that defines the scope of a protected invention. The statute that governs which subject matter is eligible for patent protection, 35 USC 101, states that protection can be obtained for “any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof.” While the terms of § 101 are expansive, the Supreme Court has long held that it contains an implicit exception making laws of nature, natural phenomena, and abstract ideas ineligible for patent protection. Since

all inventions at some level embody laws of nature, natural phenomena, and abstract ideas, courts have struggled to articulate a test for setting apart eligible and ineligible subject matter.

Still, it is often easier to single out what *is* eligible (e.g., spark plugs, stents) rather than what is *not*. The Supreme Court probed the harder of the two inquiries in *Alice Corporation v CLS Bank International*.<sup>1</sup> In *Alice*, the Court considered whether claims related to a computer-implemented scheme for mitigating settlement risk by using a third-party intermediary were eligible for patent protection. One patent claim in the case called for creating shadow records for each counterparty to a transaction; obtaining start-of-day balances based on the parties’ real-world accounts at exchange institutions; adjusting the shadow records as transactions are entered, allowing only those transactions for which the parties have sufficient resources; and issuing irrevocable end-of-day instructions to the exchange institutions to carry out the permitted transactions.

To decide whether the patent claims were eligible, the Court walked the claims through a two-step framework. First, the Court asked whether the claims were directed to one of the patent-ineligible concepts.<sup>2</sup> Intermediated

settlement is a fundamental economic practice and, the Court found, is therefore an abstract idea.<sup>3</sup> Second, the Court asked whether the claims contained an inventive concept that transforms the abstract idea into a patent-eligible application.<sup>4</sup> The Court viewed the claims as doing nothing more than reciting the abstract idea of intermediated settlement as carried out on a generic computer with generic computer functions.<sup>5</sup> Falling short in each step, the Court concluded that the claims were not eligible for patent protection.<sup>6</sup>

The holding in *Alice* casts a dark shadow on computer-implemented inventions. Lower courts are invalidating more and more patents as being directed to abstract ideas, and the U.S. Patent and Trademark Office is rejecting more and more patent applications on the same basis. What we know from *Alice* is that patent claims need *something more* than a mere recitation of a patent-ineligible concept, and that *something more* cannot be a generic computer carrying out generic computer functionality.

### The role of the district court in construing patent claims

In most patent lawsuits, the district court must ascertain the proper legal scope of a patent's coverage before the fact finder determines whether the patent is infringed. This proceeding—known as claim construction—is almost always hotly contested. Indeed, in a typical patent dispute, the patent owner argues for broad patent scope that captures the alleged infringing technology while the accused infringer argues for narrow patent scope that avoids infringement. A favorable claim construction ruling can thus usurp the factual components of a patent infringement analysis and allow the prevailing party to quickly conclude the lawsuit either through dispositive motion practice or by eliciting a concession of infringement/non-infringement from the non-prevailing party.

For more than a decade, the U.S. Court of Appeals for the Federal Circuit has treated claim construction as a pure

question of law subject to de novo review on appeal. But high reversal rates and a perceived inability of the federal circuit to develop a coherent body of caselaw has stirred debate on the wisdom of that approach. Proponents of the de novo standard contend that claim construction is a pure question of law and that plenary review by an appellate court with national subject matter jurisdiction is appropriate given the sophisticated legal principles that must be applied to complex technical documents. Critics of the de novo standard, on the other hand, argue that construing a patent claim as it would be understood by a person of ordinary skill in the art is a mixed question of law and fact entitled to some deference on appeal.

The Supreme Court recently assessed the standard for reviewing a district court's claim construction in *Teva Pharmaceuticals USA, Incorporated v Sandoz, Incorporated*.<sup>7</sup> In that case, the parties disputed the meaning of the phrase "molecular weight" as recited in Teva's patent. The intrinsic evidence consisting of the patent itself and the written public record between the patentee and the patent examiner did little to settle the dispute. So the district court turned to extrinsic evidence in the form of expert testimony to shed light on the meaning of the term "molecular weight." In adopting Teva's proposed interpretation of the disputed claim term, the district court credited the testimony of Teva's expert and rejected the testimony of Sandoz's expert. On appeal, the federal circuit reversed, and in doing so reviewed every aspect of the district court's claim construction de novo, including the district court's resolution of conflicting expert testimony.

The Supreme Court disagreed with the federal circuit and held that the "clear error" standard set forth in Federal Rule of Civil Procedure 52(a)(6), not the de novo standard, must be applied to subsidiary findings of fact made by a district court when construing patent claims.<sup>8</sup> To be clear, the Court reiterated that a judge, not a jury, is solely responsible for construing a patent claim, and that the ultimate issue of the proper construction of a patent claim is an issue of law to be reviewed de novo.<sup>9</sup> But

when a district court's claim construction analysis is premised on underlying subsidiary factual findings—such as the resolution of the conflicting extrinsic evidence like the expert testimony presented in *Teva*—those findings are governed by Rule 52(a) and may only be set aside on appeal if clearly erroneous.

Whether the Court's decision in *Teva* will result in more deference to district court judges when it comes to construing patent claims is debatable. In most cases, the

### FAST FACTS

The United States Supreme Court's heightened interest in intellectual property law in recent years has resulted in some real, and perhaps lasting, changes in IP jurisprudence.

The Supreme Court has taken on some consequential topics: patent eligibility, patent claim construction, patent infringement, and the preclusive effect of agency decisions.

IP stakeholders are challenged with adapting to the new landscape set by the Supreme Court.

ultimate legal meaning of disputed claim language will be apparent from the patent's intrinsic evidence, thus obviating the need for the district court to resolve subsidiary factual disputes rooted in extrinsic evidence. Under these circumstances, the district court's claim construction will condense solely to a determination of law, and the federal circuit will review that construction *de novo* as it has done for decades.<sup>10</sup> Only when the district court is forced to make subsidiary factual findings about presented extrinsic evidence in the context of construing disputed claim language does *Teva's* "clear error" standard of review attach to those factual findings.<sup>11</sup> In that scenario, there is now a high likelihood that the district court's subsidiary factual findings will be sustained on appeal.

### Divided patent infringement through active inducement

In general, there are two types of patent infringement: direct and indirect. For a patented method, direct infringement exists when every step of the method is performed by a single party or can be attributed to a single party by its direction or control over another party (e.g., through an agency relationship, contractual arrangement, or joint venture). One form of direct infringement, known as divided infringement, can involve one party performing some steps of the patented method and another party performing the remaining steps under the direction or control of the first party. Indirect infringement, on the other hand, can be found when one party actively induces another party to directly infringe a patent. An example is a manufacturer's sale of a product it knows will infringe a patented process upon use by the purchaser.

The Supreme Court confronted a hybrid of divided infringement and infringement by active inducement in *Limelight Networks, Incorporated v Akamai Technologies, Incorporated*.<sup>12</sup> In *Limelight*, the Court considered whether an accused infringer could be liable for active inducement when it performed all but one step of a method claim, and encouraged others to perform the remaining step. The patents in the case concern a method for delivering web content over the Internet. One patent claim called for, among other steps, tagging embedded objects such as video or music files in a content provider's web page. The accused infringer performed all but one step of the claim—it did not perform the tagging step and instead provided its customers with instructions and technical assistance on how to perform that step themselves.

Since providing instructions and assistance did not satisfy the then-prevailing direction or control test needed for direct infringement and yet encouraged the customers' actions, the federal circuit's decision below found liability under a theory of indirect patent infringement by active inducement, despite the fact that no single party would be liable as a direct infringer.<sup>13</sup> In *Limelight*, the Supreme Court took issue with the federal circuit's decision and, in a somewhat unfriendly tone, stressed that liability for

active inducement cannot occur without direct infringement: "our case law leaves no doubt that inducement liability may arise 'if, but only if, [there is]...direct infringement.'"<sup>14</sup> And since direct infringement was lacking in the case, the Supreme Court reversed the federal circuit's decision.<sup>15</sup>

The holding in *Limelight* means that a party will not infringe a patented method by active inducement when it performs some steps of the method and, absent direct infringement, merely encourages another party to perform the remaining steps. Moreover, the holding muddies patent claims that require actions by a party other than an intended infringer, like the customers in *Limelight*. Nevertheless, patent practitioners can sidestep a divided infringement issue by drafting claims aimed at a single party.

### The preclusive effect of agency decisions

The Supreme Court did not limit its recent foray into IP matters strictly to patent law. In *B&B Hardware, Incorporated v Hargis Industries, Incorporated*,<sup>16</sup> the Court examined the application of issue preclusion in the context of trademark law. Specifically, under the Lanham Act, the owner of a registered federal trademark has several options to protect its acquired trademark rights against parties who are impermissibly using a confusingly similar mark. The trademark owner may oppose a federal trademark application or move to cancel a federal registration in an administrative proceeding conducted before the Trademark Trial and Appeal Board. The trademark owner may also sue the offending party in federal court for trademark infringement. These two types of proceedings may be pursued in parallel and usually require the respective tribunals to decide some of the same issues.

The facts in *B&B Hardware* are not unusual in the realm of a federal trademark dispute. B&B Hardware, the owner of the mark SEALTIGHT, sought to curtail Hargis's competing use of the mark SEALTITE. B&B Hardware filed an opposition proceeding with the Trademark Trial and Appeal Board, claiming that Hargis should not be allowed to federally register its SEALTITE mark because the mark is confusingly similar to B&B Hardware's SEALTIGHT mark. B&B Hardware also sued Hargis in federal district court for trademark infringement based on Hargis's use of the SEALTITE mark in commerce. In each of the proceedings initiated by B&B Hardware, the issue of whether a "likelihood of confusion" exists between the two competing marks would have to be resolved.

The Trademark Trial and Appeal Board concluded its proceedings first and sided with B&B Hardware. The board determined that Hargis's SEALTITE mark is confusingly similar to B&B Hardware's SEALTIGHT mark and, therefore, Hargis could not register SEALTITE as a federal trademark. At the time of the board's decision, the district court had not yet ruled on likelihood of confusion. Taking advantage of this opportunity, B&B Hardware argued to the court that the Trademark Trial and Appeal Board's final



decision precluded Hargis from contesting likelihood of confusion in the trademark infringement suit. The district court—and later the Eighth Circuit Court of Appeals—disagreed with B&B Hardware, and a jury returned a verdict in favor of Hargis, finding no likelihood of confusion between the competing SEALTIGHT and SEALTITE marks.

The Supreme Court held that a district court should give preclusive effect to a Trademark Trial and Appeal Board decision so long as the ordinary elements of issue preclusion are met.<sup>17</sup> The fact that the board is an administrative agency and not an Article III court made little difference given the Court’s “longstanding view that ‘[w]hen an administrative agency [acts] in a judicial capacity and [resolves] disputed issues of fact properly before it which the parties have had an adequate opportunity to litigate, the courts have not hesitated to apply res judicata to enforce repose.’”<sup>18</sup> The Court further explained that the likelihood of confusion standard is the same for purposes of registration and infringement.<sup>19</sup> As a result, it does not matter that the Trademark Trial and Appeal Board and the district court may look to different factors to assess likelihood of confusion of the same issue, as the consideration of slightly different factors to inform a single codified standard should not be confused with applying a different standard altogether.

The Court’s decision in *B&B Hardware* represents a marked shift in the interplay between administrative proceedings before the Trademark Trial and Appeal Board and district court litigation involving the same parties. Administrative litigation before the board is now more important than ever as a decision from the board regarding likelihood of confusion may conclusively settle the issue in subsequent trademark infringement litigation. Looking forward, a trademark owner needs to carefully weigh potential ramifications, both good and bad, that starting proceedings before the Trademark Trial and Appeal Board could have on a trademark infringement suit brought against the same party.

### Concluding remarks

Whether the Supreme Court’s appetite for IP will continue is anyone’s guess. For now, stakeholders are challenged with adapting to the changes in IP jurisprudence set in motion by the Court’s recent decisions. ■



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### ENDNOTES

1. *Alice Corp v CLS Bank Int’l*, \_\_\_ US \_\_\_; 134 S Ct 2347; 189 L Ed 2d 296 (2014).
2. *Id.* at 2355.
3. *Id.* at 2356.
4. *Id.* at 2357.
5. *Id.* at 2359.
6. *Id.* at 2360.
7. *Teva Pharm USA, Inc v Sandoz, Inc*, \_\_\_ US \_\_\_; 135 S Ct 831; \_\_\_ L Ed 2d \_\_\_ (2015).
8. *Id.* at 837–838.
9. *Id.*
10. *Id.* at 841.
11. *Id.*
12. *Limelight Networks, Inc v Akamai Techs, Inc*, \_\_\_ US \_\_\_; 134 S Ct 2111; 189 L Ed 2d 52 (2014).
13. *Id.* at 2116.
14. *Id.* at 2117, quoting *Aro Mfg Co v Convertible Top Replacement Co*, 365 US 336, 341; 81 S Ct 599; 5 L Ed 2d 592 (1961).
15. *Id.* at 2115.
16. *B&B Hardware, Inc v Hargis Inds, Inc*, \_\_\_ US \_\_\_; 135 S Ct 1293; 191 L Ed 2d 222 (2015).
17. *Id.* at 1299.
18. *Id.* at 1303, quoting *Univ of Tenn v Elliot*, 478 US 788, 797–798; 106 S Ct 3220; 92 L Ed 2d 635 (1986).
19. *Id.* at 1306–1307.