



The US IP system corrective process kicks into gear again

The US Supreme Court is to hear two cases involving baseless patent lawsuits. This is a welcome example of the judicial branch helping to correct abuses and freeing up the US Congress to focus on issues uniquely requiring legislative attention

On 1st October the US Supreme Court added eight new cases to its docket for the 2013-2014 term. They include *Octane Fitness LLC v Icon Health & Fitness Inc* and *Highmark Inc v Allcare Management Systems Inc*, in which the court will determine whether the standard for finding a case “exceptional” under 35 USC §285 – and therefore whether attorneys’ fees may be awarded – should be lowered, and whether a district court’s decision under §285 is entitled to deference. The issues are particularly interesting because §285 is a potential avenue for courts to use in addressing baseless lawsuits, including those filed by non-practising entities (NPEs).

While 35 USC §285 entitles courts to award attorneys’ fees in patent cases in exceptional circumstances, US courts have interpreted this as requiring both an objectively baseless claim of infringement and subjective bad faith on the part of the plaintiff (ie, knowledge that the case lacks merit). As a result, defendants are rarely successful in motions to award fees. This close adherence to the so-called ‘American rule’ is thought by many to contribute to the current cost-benefit environment, which favours plaintiffs – particularly NPEs – which have few litigation expenses in pressing patent suits, over defendants, which must produce huge amounts of documentary evidence and incur substantial legal expenses. The American rule stands in contrast to the so-called ‘English rule’, which routinely awards expenses to the winning party, causing would-be plaintiffs to file fewer marginal cases.

In *Octane*, Icon (an NPE) sued Octane alleging that the linkage system between the footrail and frame of Octane’s elliptical exercise machines infringed Icon’s patent. The district court construed the claims and determined that the linkage limitations were absent

from the asserted claims. The court granted Octane’s motion for summary judgment, but denied its motion for attorneys’ fees under §285, finding the suit not objectively baseless and not brought in bad faith. When the Federal Circuit affirmed, Octane appealed to the Supreme Court to decide whether the Federal Circuit’s two-prong test is an appropriate interpretation of §285, and whether that test should be changed.

In *Highmark* Allcare (an NPE) sued Highmark, a Blue Cross Blue Shield health plan, alleging that Highmark’s transaction-processing systems infringed an Allcare patent. The district court granted Highmark’s motions for both summary judgment and §285 attorneys’ fees, noting – among other things – that Allcare had:

- Performed no pre-filing legal investigation or analysis.
- Knowingly asserted meritless defences.
- Made contradictory arguments.
- Engaged in needless alterations of its claim construction assertions.
- Continued to pursue infringement claims as “leverage”, even after its own expert conceded that there was no reasonable basis for asserting infringement.

The court described Allcare’s actions as “align[ed] with the sort of conduct that gives the term ‘patent troll’ its negative connotation”. Over two strong dissents, the Federal Circuit then reversed the award of attorneys’ fees, holding that the district court’s determination of objective baselessness was reviewed “without deference”. Highmark has appealed to the Supreme Court, which will now decide whether the district court determinations under §285 should be entitled to deference.

While US Supreme Court review of a patent case is always noteworthy for what it may portend, *Octane* and *Highmark* are remarkable for another reason: this precise issue has been the subject of much legislative effort in recent years. The court’s decision to grant *certiorari* in *Octane* and *Highmark* illustrates vividly the interplay between the judicial and legislative branches

of the US government, and in a familiar context – that of patent reform.

We saw this same interplay during the debate over the Leahy-Smith America Invents Act, passed in 2011, where the one-two combination of the Supreme Court and Federal Circuit took issue after issue out of the debate by correcting patent laws from the bench. During that process, the law of obviousness was addressed through *KSR International v Teleflex, Inc* and its progeny; the law of wilfulness was addressed through *In re Seagate Technologies*; the law of damages was significantly improved through *Microsoft v AT&T*, *Uniloc v Microsoft*, *Cornell University v Hewlett Packard Co* and *Lucent Technologies v Gateway, Inc*; and the law of venue was reshaped through *In re Volkswagen of America* and its progeny. These important decisions and others effectively removed highly contentious, stalemating issues from the legislative debate, paving the way for the act.

We see this familiar pattern beginning to repeat itself as the courts tackle problems simultaneously under consideration by the legislature. Pending cases such as *Octane* and *Highmark* aim to address the same issues as the proposed Patent Abuse Reduction Act, the Saving High-Tech Innovators from Egregious Legal Disputes Act and the Patent Litigation and Innovation Act – all three of which are currently pending in the US Congress.

While the outcome of *Octane* and *Highmark* remains to be seen, if history is a teacher – as it so frequently is – we can expect more of the judicial branch helping the legislative branch to correct abuses that negatively impact on the US IP system. This will, in turn, allow the US Congress to focus on those issues uniquely requiring legislative attention, thereby increasing the likelihood of targeted action that can achieve the consensus needed for enactment into law.

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