



Submitted Statement for the Record of  
**Charles Duan**  
**Director, Patent Reform Project**  
**Public Knowledge**

Before the  
**Subcommittee on Courts, Intellectual Property, and the Internet**  
of the  
**Committee on the Judiciary**  
**House of Representatives**

Hearing on  
**Examining Recent Supreme Court Cases in the Patent Arena**

February 12, 2015

## EXAMINING RECENT SUPREME COURT CASES IN THE PATENT ARENA

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### STATEMENT OF CHARLES DUAN DIRECTOR, PATENT REFORM PROJECT, PUBLIC KNOWLEDGE

CHAIRMAN ISSA, RANKING MEMBER NADLER, AND MEMBERS OF THE SUBCOMMITTEE:

Thank you for providing me with the opportunity to submit the following testimony for the record of this hearing on recent Supreme Court patent cases.

Public Knowledge is a non-profit organization dedicated to preserving the openness of the Internet and the public's access to knowledge, promoting creativity through balanced intellectual property rights, and upholding and protecting the rights of consumers to use innovative technology lawfully. As part of this mission, Public Knowledge advocates on behalf of the public interest for a balanced patent system, particularly with respect to new and emerging technologies.

In light of these purposes, Public Knowledge has played an active part in the patent cases before the Supreme Court over the past few months. We filed *amicus curiae* briefs in many of those cases, including *Alice Corp. Pty. Ltd. v. CLS Bank International*,<sup>1</sup> *Nautilus, Inc. v. Biosig Instruments, Inc.*,<sup>2</sup> *Octane Fitness, LLC v. Icon Health & Fitness, Inc.*,<sup>3</sup> and *WildTangent, Inc. v. Ultramercial, LLC*,<sup>4</sup> in which we presented the public interest in maintaining a balanced patent system. Furthermore, we have participated closely in discussions on how the decisions in those cases are to be interpreted and implemented, through

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<sup>1</sup>Brief of Public Knowledge and the Application Developers Alliance as Amici Curiae in Support of Respondents, *Alice Corp. Pty. Ltd. v. CLS Bank Int'l*, 134 S. Ct. 2347 (Feb. 26, 2014) (No. 13-298) [hereinafter Public Knowledge *Alice* Brief], available at [https://www.publicknowledge.org/assets/uploads/blog/13-298\\_bsac\\_Public\\_Knowledge\\_and\\_the\\_Application\\_Developers\\_Alliance.pdf](https://www.publicknowledge.org/assets/uploads/blog/13-298_bsac_Public_Knowledge_and_the_Application_Developers_Alliance.pdf).

<sup>2</sup>Brief of Public Knowledge and the Electronic Frontier Foundation as *Amici Curiae* in Support of Petitioner, *Nautilus, Inc. v. Biosig Instruments, Inc.*, 134 S. Ct. 2120 (Oct. 23, 2013) (No. 13-369) [hereinafter Public Knowledge *Nautilus* Brief], available at <https://www.publicknowledge.org/files/pk-nautilus-brief.pdf>.

<sup>3</sup>Brief of *Amici Curiae* Electronic Frontier Foundation, Application Developers Alliance, Engine Advocacy, and Public Knowledge in Support of Petitioner, *Octane Fitness, LLC v. Icon Health & Fitness, Inc.*, 134 S. Ct. 1749 (Dec. 9, 2013) (No. 12-1184) [hereinafter Public Knowledge *Octane Fitness* Brief], available at [https://www.eff.org/files/2013/12/09/octane\\_v\\_icon\\_eff\\_amicus\\_brief.pdf](https://www.eff.org/files/2013/12/09/octane_v_icon_eff_amicus_brief.pdf).

<sup>4</sup>Brief of Amicus Curiae Public Knowledge in Support of Petitioner, *WildTangent, Inc. v. Ultramercial, LLC*, 134 S. Ct. 2870 (Sept. 23, 2013) (No. 13-255), available at <https://www.publicknowledge.org/files/wildtangent-v-ultramercial-pk-amicus.pdf>.

two appellate court *amicus* briefs,<sup>5</sup> comments on the USPTO's *Alice* guidance to patent examiners,<sup>6</sup> an empirical research article,<sup>7</sup> published commentary and opinion pieces,<sup>8</sup> and panel discussions.<sup>9</sup>

Briefly, the statement below makes the following three points:

**1. Patent law must be balanced and crafted to serve the public interest, because abusive patent litigation is the direct result of unbalanced patent law.**

The Constitution mandates that patents must promote innovation and progress, and specifically warns that excessive patent protection will have the opposite effect. Unfortunately, patent law today has lost sight of this important goal, often making it too easy to obtain an overbroad patent on ordinary, noninventive ideas, and making it too easy to use those patents as a weapon against small businesses, consumers, and the economy in general.

**2. The Supreme Court's decisions reflect a careful attempt to restore that balance.** The Court frequently invokes the principle that patent law must be calibrated to provide a sufficient incentive for inventors to invent, but also to ensure a degree

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<sup>5</sup>Brief of *Amicus Curiae* Public Knowledge in Support of Defendant-Appellee, *Ultramercial, Inc. v. Hulu, LLC*, 772 F.3d 709 (Fed. Cir. Aug. 28, 2014) (No. 10-1544), available at <https://www.publicknowledge.org/assets/uploads/documents/brief-ultramercial-cafc-supp.pdf>; Brief of Amici Curiae Application Developers Alliance, Computer and Communications Industry Association, Electronic Frontier Foundation, Engine Advocacy, National Restaurant Association, and Public Knowledge in Support of Defendant-Appellee Bravo Media, LLC, *DietGoal Innovations LLC v. Bravo Media LLC*, No. 14-1631 (Fed. Cir. Nov. 24, 2014), available at [https://www.eff.org/files/2014/11/25/14-1631\\_dietgoal\\_amicus\\_final.pdf](https://www.eff.org/files/2014/11/25/14-1631_dietgoal_amicus_final.pdf).

<sup>6</sup>Charles Duan & Joseph Savage, *Comments of Public Knowledge on Examination Instruction and Guidance Pertaining to Patent-Eligible Subject Matter* (USPTO July 31, 2014), <http://www.uspto.gov/sites/default/files/patents/law/comments/al-a-publicknowledge20140731.pdf>.

<sup>7</sup>Tristan Gray-Le Coz & Charles Duan, *Apply It to the USPTO: Review of the Implementation of Alice v. CLS Bank in Patent Examination*, 2014 PATENTLY-O PAT. L.J. 1, <http://patentlyo.com/media/2014/11/GrayLeCozDuan.pdf>.

<sup>8</sup>E.g., Charles Duan, *A Definite Problem of Patent Law: Nautilus v. Biosig Instruments*, JURIST PROF. COMMENT. (May 7, 2014), <http://jurist.org/hotline/2014/05/charles-duan-patents-natilus.php>; Charles Duan, *Would You Like a Patent Lawsuit with Your Meal?*, ROLL CALL (Dec. 18, 2014), [http://www.rollcall.com/news/would\\_you\\_like\\_a\\_patent\\_lawsuit\\_with\\_your\\_meal\\_commentary-238838-1.html](http://www.rollcall.com/news/would_you_like_a_patent_lawsuit_with_your_meal_commentary-238838-1.html) (discussing *Alice Corp. Pty. Ltd. v. CLS Bank International*, 134 S. Ct. 2347 (2014)).

<sup>9</sup>E.g., *Supreme Court Series: Nautilus, Inc. v. Biosig Instruments, Inc.*, PROGRAM ON INFORMATION JUSTICE AND INTELLECTUAL PROPERTY, AMERICAN UNIVERSITY WASHINGTON COLLEGE OF LAW (Apr. 28, 2014) (panel discussion), <http://www.pijip.org/events/nautilus/>.

of freedom for the public so that future innovations may occur. All of the decisions of the Court have strived to implement this principle. In particular, the *Alice* decision is not a dilution of patent rights, as some critics have called it. Rather, it is a return to the crucial first principles of patent law, that a balanced patent system requires basic, fundamental ideas to be free for everyone to use, lest ownership of such basic ideas blockade further innovation.

3. **Patent reform is a multifaceted effort, and Congress must play a role even in view of the Supreme Court decisions.** In particular, while Congress has tended to focus on process issues of how patents are used and litigated, the Court's decisions have dealt more with the substance of what subject matter is patentable and how patents are to be interpreted. Neither is sufficient to fully repair the patent system, but both are necessary and urgently needed.

Further general information on patent reform issues generally may be found at Public Knowledge's whitepaper, *A Five Part Plan for Patent Reform*.<sup>10</sup>

#### **I. THE PRESENT PLAGUE OF PATENT ABUSE DERIVES FROM A MISBALANCING OF THE PATENT SYSTEM**

The patent system is in crisis. Abusers take advantage of questionable patents on basic ordinary technologies—ones that you and I use every day, such as scanners<sup>11</sup> and Wi-Fi<sup>12</sup>—turning those patents into weapons for threatening businesses big and small. Such abuses have cost our economy billions of dollars,<sup>13</sup> have destroyed small startups and com-

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<sup>10</sup>CHARLES DUAN, PUB. KNOWLEDGE, *A FIVE PART PLAN FOR PATENT REFORM* (2014), available at <https://www.publicknowledge.org/documents/a-five-part-plan-for-patent-reform>.

<sup>11</sup>See, e.g., Joe Mullin, *Patent Trolls Want \$1,000—for Using Scanners*, ARS TECHNICA (Jan. 2, 2013), <http://arstechnica.com/tech-policy/2013/01/patent-trolls-want-1000-for-using-scanners/>.

<sup>12</sup>See John Ribeiro, *Cisco Reaches Agreement with Innovatio over Wi-Fi Patents*, PCWORLD (Feb. 7, 2014), <http://www.pcworld.com/article/2095700/cisco-reaches-agreement-with-innovatio-over-wifi-patents.html>.

<sup>13</sup>See James Bessen et al., *The Private and Social Costs of Patent Trolls*, REGULATION, Winter 2011–2012, at 26, <http://object.cato.org/sites/cato.org/files/serials/files/regulation/2012/5/v34n4-1.pdf>.

panies,<sup>14</sup> and have kept valuable innovations and technologies out of the hands of American consumers.<sup>15</sup> And with the rapid growth of computers, the Internet, and emerging technologies such as 3D printing,<sup>16</sup> the problem of abusive patent assertion has rapidly grown as well, developing into an entire industry of so-called Patent Assertion Entities.<sup>17</sup>

This crisis of patents is unfortunate because patents are not intended to impede innovation and growth—patents are intended for the exact opposite. The purpose of our patent system is enshrined in the Constitution: “to promote the Progress of Science and the useful Arts.”<sup>18</sup> But to promote that progress, the patent system must be delicately balanced. While patent protection can certainly incentivize new inventions, “sometimes too much patent protection can impede . . . the constitutional objective.”<sup>19</sup> Finding that right balance is difficult, but it is not impossible. So despite the naysayers who refuse to reform a troubled patent system, professing that patent abuse is the unavoidable<sup>20</sup>—or, worse yet, *desirable*<sup>21</sup>—effect of patent law, I believe that effective patent reform can bring our system in line with those constitutional ideals of promoting progress, by carefully striking a “balance between the interest in motivating innovation and enlightenment . . .

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<sup>14</sup>See COLLEEN V. CHIEN, NEW AM. FOUND., PATENT ASSERTION AND STARTUP INNOVATION 17 fig.3 (2013), [http://www.newamerica.net/publications/policy/patent\\_assertion\\_and\\_startup\\_innovation](http://www.newamerica.net/publications/policy/patent_assertion_and_startup_innovation).

<sup>15</sup>See *id.* at 18 (quoting interview with investor describing one of its investments) (“The company develops and sells novel therapeutic medical devices to treat patients in pain. The suit by the NPE will result in the company changing its hiring and commercialization plans to deal with the suit, or worse the current suit may put company out of business.” (internal quotations and alterations omitted)).

<sup>16</sup>See MICHAEL WEINBERG, PUB. KNOWLEDGE, IT WILL BE AWESOME IF THEY DON’T SCREW IT UP: 3D PRINTING, INTELLECTUAL PROPERTY, AND THE FIGHT OVER THE NEXT GREAT DISRUPTIVE TECHNOLOGY 7–8 (2010), available at <https://www.publicknowledge.org/files/docs/3DPrintingPaperPublicKnowledge.pdf>.

<sup>17</sup>See, e.g., EXECUTIVE OFFICE OF THE PRESIDENT, PATENT ASSERTION AND U.S. INNOVATION 5 (2013), available at [http://www.whitehouse.gov/sites/default/files/docs/patent\\_report.pdf](http://www.whitehouse.gov/sites/default/files/docs/patent_report.pdf).

<sup>18</sup>U.S. CONST. art. I, § 8, cl. 8.

<sup>19</sup>*Lab. Corp. of Am. Holdings v. Metabolite Labs., Inc.*, 548 U.S. 124, 126–27 (2006) (Breyer, J., dissenting from dismissal of certiorari) (emphasis in original).

<sup>20</sup>See Stephen Haber & Ross Levine, *The Myth Of the Wicked Patent Troll*, INNOVATION ALLIANCE (June 29, 2014), <http://innovationalliance.net/patent-news/wall-street-journal-myth-wicked-patent-troll/> (describing 60% increase in patent litigation as “reflect[ing] a healthy, dynamic economy”).

<sup>21</sup>See Adam Mossoff, *Thomas Edison Was a “Patent Troll”*, SLATE: HISTORY OF INNOVATION (May 19, 2014), [http://www.slate.com/articles/technology/history\\_of\\_innovation/2014/05/thomas\\_edison\\_charles\\_goodyear\\_and\\_elias\\_howe\\_jr\\_were\\_patent\\_trolls.html](http://www.slate.com/articles/technology/history_of_innovation/2014/05/thomas_edison_charles_goodyear_and_elias_howe_jr_were_patent_trolls.html) (describing so-called “patent trolls” as “essential to how the patent system has been a driver of America’s innovation economy for more than two centuries”).

and the interest in avoiding monopolies that unnecessarily stifle competition.”<sup>22</sup>

And every branch of the United States government agrees, for every branch of the United States government has sought to play its part in rebalancing that patent system. Congress, with support of the Administration, has introduced legislation to “level the playing field” for patent litigation.<sup>23</sup> The U.S. Patent and Trademark Office has embarked on numerous initiatives to improve patent quality, because, as Acting Director Michelle Lee said, fixing the patent system is “about maintaining the public’s faith that the benefits of patents outweigh their costs to society.”<sup>24</sup> And, critically, the Supreme Court has taken a handful of patent cases on questions of what matter ought to be patentable and how the substantive rules of patent law ought to be applied.

The common threads among these diverse efforts at patent reform are twofold: first, a recognition that the patent system has gone awry and requires repair, and second, an aim to center patent policy at a balanced position that promotes the progress of science and the useful arts. These themes are reiterated time and time again in the Supreme Court’s decisions, and it is to a selection of the most important of those recent decisions that I now turn.

## **II. THE SUPREME COURT’S PATENT DECISIONS UNIFORMLY REFLECT THE CRITICALITY OF A BALANCED PATENT SYSTEM SERVING THE PUBLIC INTEREST**

The following is a summary of key patent cases decided by the Supreme Court in 2014. As will be seen, the common theme throughout all the decisions is a focus on maintaining a balanced patent system dedicated to the public interest.

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<sup>22</sup>*Pfaff v. Wells Elecs., Inc.*, 525 U.S. 55, 63 (1998).

<sup>23</sup>*See* Innovation Act, H.R. 3309, 113th Cong. (2013); House Comm. on the Judiciary, 113th Cong., *The Innovation Act Will Level the Playing Field for Small Businesses and Start-Ups* (Nov. 20, 2013), [http://content.govdelivery.com/attachments/USHRC/2013/12/02/file\\_attachments/255001/%2528Courtesy%2Bof%2Bthe%2BJudiciary%2BCommittee%2529%2BHR%2B3309%2BHandout%2B-%2BSmall%2BBusiness.pdf](http://content.govdelivery.com/attachments/USHRC/2013/12/02/file_attachments/255001/%2528Courtesy%2Bof%2Bthe%2BJudiciary%2BCommittee%2529%2BHR%2B3309%2BHandout%2B-%2BSmall%2BBusiness.pdf); Press Release, Office of the Press Sec’y, The White House, *Fact Sheet—Executive Actions: Answering the President’s Call to Strengthen Our Patent System and Foster Innovation* (Feb. 20, 2014), <http://www.whitehouse.gov/the-press-office/2014/02/20/fact-sheet-executive-actions-answering-president-s-call-strengthen-our-p>.

<sup>24</sup>Michelle K. Lee, Deputy Under Sec’y of Commerce for Intellectual Prop., *Speaking Truth to Patents: The Case for a Better Patent System, Remarks at Stanford Law School* (June 26, 2014), <http://www.uspto.gov/about-us/news-updates/speaking-truth-patents-case-better-patent-system>.

**A. ALICE CORP. PTY. LTD. V. CLS BANK INTERNATIONAL: PROTECTING THE COMMON IDEA FROM EXCLUSIVE MONOPOLY**

Among the Supreme Court’s decisions on patents, *Alice* was undoubtedly the most widely discussed and the most controversial. Scholars, reporters, and attorneys debated how the case would affect software companies and patent abusers.<sup>25</sup> Given this spirited debate over the decision, one would imagine that it was a complex case dealing with highly technical aspects of law. But, in fact, *Alice* was actually a very simple case.

The question in *Alice* was whether basic, simple ideas are patentable simply because they are done on a computer rather than, say, by pencil and paper. The Supreme Court said they are not.

Public Knowledge’s *amici curiae* brief,<sup>26</sup> filed together with the Application Developers Alliance, clearly illustrates this point of how the patent at issue was just a basic idea run on a computer. The patent itself, of course, did not make this clear, confusingly setting forth the patent’s claims, the part of the patent text where the inventor defines the invention, in 200-word-long sentences, set forth in full in the footnote.<sup>27</sup> But, as our brief

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<sup>25</sup>See, e.g., Julie Samuels, *The Supreme Court Gets Tech Right With This Software Patent Ruling*, SLATE: FUTURE TENSE (June 20, 2014), [http://www.slate.com/articles/technology/future\\_tense/2014/06/alice\\_v\\_cls\\_bank\\_supreme\\_court\\_gets\\_software\\_patent\\_ruling\\_right.html](http://www.slate.com/articles/technology/future_tense/2014/06/alice_v_cls_bank_supreme_court_gets_software_patent_ruling_right.html); Richard H. Stern, *Alice v. CLS Bank: Are US Business-Method and Software Patents Doomed? Part 1*, IEEE MICRO, Sept./Oct. 2014, at 64.

<sup>26</sup>Public Knowledge *Alice* Brief, *supra* note 1.

<sup>27</sup>See *id.* app. B, at 8a–9a. The claim printed there reads:

A data processing system to enable the exchange of an obligation between parties, the system comprising:  
a communications controller,  
a first party device, coupled to said communications controller,  
a data storage unit having stored therein  
(a) information about a first account for a first party, independent from a second account maintained by a first exchange institution, and  
(b) information about a third account for a second party, independent from a fourth account maintained by a second exchange institution; and  
a computer, coupled to said data storage unit and said communications controller, that is configured to  
(a) receive a transaction from said first party device via said communications controller;  
(b) electronically adjust said first account and said third account in order to effect an exchange obligation arising from said transaction between said first party and said second party after ensuring that said first party and/or said second party have adequate value in said first account and/or said third account, respectively; and  
(c) generate an instruction to said first exchange institution and/or said second exchange institution to adjust said second account and/or said fourth account in accordance with the adjustment of said first account and/or said third account, wherein said instruction being an irrevocable, time invariant obligation placed on said first exchange institution and/or said second exchange institution.

showed, those two hundred words did not define a complex or intricate technology. They did not define an “invention” in the ordinary sense of that word.

Those 200-word sentences defined nothing more than the idea of using a computer to exchange money through a broker.<sup>28</sup>

The patented idea was so simple, in fact, that we were able to write a program to do all the steps of that money exchange—in just seven lines of computer code, shown in the footnote.<sup>29</sup> For comparison, the seven lines of code are shorter than the ten-minute homework problems from my college introductory Computer Science textbooks. Based on this showing, we argued that the patent could not pass muster because it described nothing more than a basic idea run on a computer.

The Supreme Court agreed. In a unanimous decision, Justice Thomas began with the rule that “[l]aws of nature, natural phenomena, and abstract ideas are not patentable.”<sup>30</sup> These categories are outside the realm of patent, he said, because a balanced patent law must “not inhibit further discovery by improperly tying up the future use of these building blocks of human ingenuity.”<sup>31</sup> In other words, certain ideas are so basic and fundamental that to allow such ideas to be tied up in patents would prevent future ideas from being discovered, thus frustrating the constitutional premise of having patents promote progress.

Furthermore, the Court decided that simply running one of those basic ideas on an ordinary computer did not merit a patent either. Because computers are a “wholly generic” technology, and “[g]iven the ubiquity of computers,” the Court concluded that a

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<sup>28</sup>*See id.* at 9.

<sup>29</sup>*Id.* at 6–7. The full code reads as follows:

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10 LET account1 = 200.00
20 LET account3 = 300.00
30 INPUT “Value to exchange for transaction”; exchange
40 IF account1 < exchange THEN PRINT “Inadequate value” : STOP
50 account1 = account1 – exchange
60 account3 = account3 + exchange
70 PRINT “Instruction to 1st institution: adjust 2nd account by ”; –exchange
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<sup>30</sup>*Alice Corp. Pty. Ltd. v. CLS Bank Int’l*, 134 S. Ct. 2347, 2354 (2014).

<sup>31</sup>*Id.*



patent on a computer running a basic idea was no better than a patent on the basic idea itself.<sup>32</sup>

*Alice* thus clearly represents the Supreme Court’s effort to develop well balanced patent jurisprudence based on the public interest. The very justification behind the Court’s ban on patents on basic, fundamental ideas is that the public interest requires such ideas, being “the basic tools of scientific and technological work,” be free for all to use.<sup>33</sup> A patent on such a basic idea “might tend to impede innovation more than it would tend to promote it, thereby thwarting the primary object of the patent laws.”<sup>34</sup> Furthermore, the Court repeatedly expressed concern about strict rules that would “make patent eligibility depend simply on the draftsman’s art,” because these principles of maintaining the freedom of basic ideas should not be easily thwarted by clever lawyering.<sup>35</sup>

Thus, *Alice* represents a strong shift toward a more balanced patent system, spearheaded by the Supreme Court. It is thus surprising to me that some, particularly patent attorneys, have called the Supreme Court “Public Enemy Number One for Patent Owners.”<sup>36</sup> In fact, the Court’s decisions are based wholly on championing the public interest, removing loopholes that permitted patents on ideas never meant for ownership, ensuring that the public retains access to “what is free for all to use.”<sup>37</sup>

## **B. NAUTILUS, INC. v. BIOSIG INSTRUMENTS, INC.: ENSURING THAT PATENTS MAKE SENSE**

Part of the difficulty with *Alice* stemmed from the fact that a simple idea about money brokering was masked in 200 words of complex patent language. This broader problem, of patents being unnecessarily difficult to understand, is well recognized to be a

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<sup>32</sup>*Id.* at 2358.

<sup>33</sup>*Id.* at 2354 (quoting *Ass’n for Molecular Pathology v. Myriad Genetics, Inc.*, 133 S. Ct. 2107, 2116 (2013)).

<sup>34</sup>*Id.* (quoting *Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, 132 S. Ct. 1289, 1923 (2012)).

<sup>35</sup>*Id.* at 2360 (quoting *Parker v. Flook*, 437 U.S. 584, 593 (1978)).

<sup>36</sup>Gene Quinn, *SCOTUS: Public Enemy Number One for Patent Owners*, IP WATCHDOG (Oct. 2, 2014), <http://www.ipwatchdog.com/2014/10/02/scotus-public-enemy-number-one-for-patent-owners/id>.

<sup>37</sup>*Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 151 (1989).

major contributor to patent abuse.<sup>38</sup> The Supreme Court sought to curb that sort of abuse in the *Nautilus* case.

Public Knowledge and the Electronic Frontier Foundation filed an *amici curiae* brief arguing that patents must clearly define what infringes and what does not, because “ambiguous patent claims would create a ‘zone of uncertainty’ . . . and thereby ‘discourage invention.’ ”<sup>39</sup> We analogized patent claims on inventions to title claims on land:

A developer wishes to build a hotel by a highway, and is searching the records of deeds for a prospective plot of land. The search reveals a recodation of an easement stating in part, “the western boundary is in a *spaced relationship* with the highway.”

What can the developer do? “Spaced relationship” could mean a foot from the highway, or a yard, or a mile. The developer could guess at the meaning, but a wrong guess could render the entire investment in building the hotel a waste. Should the case be brought to court, different judges or juries could reasonably disagree on the meaning. Worse yet, when the easement owner sues the developer, the owner will have the benefit of hindsight in making his argument for interpreting the property claim, but the developer has no such benefit when choosing where to build the hotel. The cards are stacked against the developer, a deadweight loss for the hotel business and for the economy at large.

. . . .

Such ambiguous descriptions of the metes and bounds of real property would never be tolerated, but for years the Federal Circuit has tolerated equally ambiguous descriptions of the metes and bounds of patents. Indeed, the term “spaced relationship,” so clearly improper in the hypothetical example above, is the exact term held “definite” by that court in the present case.<sup>40</sup>

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<sup>38</sup>See Bessen et al., *supra* note 13, at 34 (tracing how patents with “fuzzy boundaries” have created “a business opportunity based on acquiring patents that can be read to cover existing technologies and asserting those patents”); FED. TRADE COMM’N, *THE EVOLVING IP MARKETPLACE: ALIGNING PATENT NOTICE AND REMEDIES WITH COMPETITION* 85 (2011) (noting stakeholder comments that the patent system “generally creates ‘an incentive to be as vague and ambiguous as you can with your claims’ and to ‘defer clarity at all costs.’ ”); PHIL GOLDBERG, *PROGRESSIVE POLICY INST., STUMPING PATENT TROLLS ON THE BRIDGE TO INNOVATION* 3 (2013) (citing “vague or expansive terms” in patents as one of “three cross winds” creating a flood of patent litigation); David Segal, *Has Patent, Will Sue: An Alert to Corporate America*, *NEW YORK TIMES*, July 14, 2013, BU1 (“But as long as the [patent] system exists, [noted patent assertor Erich] Spangenberg is going to exploit its ambiguities and pokiness for all it’s worth.”); JAMES BESSEN & MICHAEL J. MEURER, *PATENT FAILURE: HOW JUDGES, BUREAUCRATS, AND LAWYERS PUT INNOVATORS AT RISK* 164 (2008) (“The evidence suggests . . . that the deterioration of the notice function might be the central factor fueling the growth in patent litigation”).

<sup>39</sup>Public Knowledge *Nautilus* Brief, *supra* note 2, at 5 (quoting *United Carbon Co. v. Binney & Smith Co.*, 317 U.S. 228, 236 (1942)).

<sup>40</sup>*Id.* at 2–3.

We thus argued that the Supreme Court should set a high bar for clarity of patents, requiring that a patent applicant “provide clear and unambiguous claim language describing the scope of his or her invention.”<sup>41</sup> Such unambiguous claims “serve the public interest by ensuring that patents are kept within their legitimate scope,” we wrote.<sup>42</sup>

The Supreme Court agreed. Writing for a unanimous Court, Justice Ginsburg initially noted that the decision was controlled by a need for a “delicate balance” of patent law.<sup>43</sup> Implementing that balance, the Court concluded that the law “mandates clarity, while recognizing that absolute precision is unattainable.” Thus, the Court enunciated a standard that a patent’s claims must “inform those skilled in the art about the scope of the invention with reasonable certainty.”<sup>44</sup> Thus, just as our brief suggested, the Court applied the age-old principle of balancing patent holder interests against those of the public, to arrive at a threshold of patent clarity that would ultimately serve the public good of fair notice of the coverage of patents.

### **C. *OCTANE FITNESS, LLC v. ICON HEALTH & FITNESS, INC.*: KEEPING ABUSIVE PATENT ASSERTION AT BAY**

While *Alice* and *Nautilus* dealt with the content of patents, *Octane Fitness* and its companion case *Highmark Inc. v. Allcare Health Management System, Inc.*<sup>45</sup> related to the litigation process of asserting patents. Specifically, the cases considered a statutory provision, commonly known as a “fee shifting” provision, that provides that a court “in exceptional cases may award reasonable attorney fees to the prevailing party.”<sup>46</sup>

This sort of fee shifting provision is long established<sup>47</sup> and important to patent cases because it serves as a check on overzealous patent assertion—again ensuring that the in-

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<sup>41</sup>*Id.* at 21.

<sup>42</sup>*Id.* at 22.

<sup>43</sup>*Nautilus, Inc. v. Biosig Instruments, Inc.*, 134 S. Ct. 2120, 2128 (2014) (quoting *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722, 731 (2002)).

<sup>44</sup>*Id.* at 2129.

<sup>45</sup>*Highmark Inc. v. Allcare Health Mgmt. Sys., Inc.*, 134 S. Ct. 1744 (2014).

<sup>46</sup>35 U.S.C. § 285 (2013).

<sup>47</sup>*See Octane Fitness, LLC v. Icon Health & Fitness, Inc.*, 134 S. Ct. 1749, 1753 (2014) (noting historical origins of § 285 dating back to 1946).

centives for patent assertion remain balanced between the interests of patent owners and the interests of the public. Indeed, the Court of Appeals for the Federal Circuit has applied that statutory fee shifting in a case where a patent owner “acted in bad faith by exploiting the high cost to defend complex litigation to extract a nuisance value settlement.”<sup>48</sup>

However, as Public Knowledge and three other organizations argued, the Federal Circuit had misinterpreted that fee shifting law, making it too difficult for prevailing parties to obtain fees.<sup>49</sup> This undue difficulty, the burden of which primarily fell on the shoulders of patent lawsuit defendants, had the effect of facilitating the rise in abusive litigation that so plagues the patent system today.<sup>50</sup> As we argued:

Commentators have rightfully laid blame for the rise in abusive patent litigation on many issues, such as dubious patent quality and the lack of transparency surrounding patent ownership. But *amici* find a significant concern drives much of the problem, particularly as it relates to the small businesses and startups it represents. That concern is the issue of this case: an inability to hold abusers accountable, due to an inappropriately high bar for attorney fee shifting, created by an overzealous Federal Circuit misinterpreting Section 285 of the Patent Act.

Read correctly, that section deters abusive and frivolous litigation by protecting defendants through the recovery of attorneys’ fees and costs. But the Federal Circuit’s erroneous interpretation fails to provide any substantial promise—or even hope—of recovering those fees and costs in even the most egregious infringement cases.

The consequence of the Federal Circuit’s withering of Section 285 protection is the creation of an industry of patent abusers, decimating the very small businesses and startups that drive American innovation.<sup>51</sup>

To make the fee shifting statute effective in deterring abusive behavior, we urged the Court to adopt a standard whereby a defendant could have legal fees compensated in “objectively weak” cases or where the patent owner “uses the cost of defense as a weapon.”<sup>52</sup>

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<sup>48</sup>*Eon-Net LP v. Flagstar Bancorp*, 653 F.3d 1314, 1327 (Fed. Cir. 2011).

<sup>49</sup>*See* Public Knowledge *Octane Fitness* Brief, *supra* note 3, at 7–8.

<sup>50</sup>*See id.* at 9 (“A potential defendant who faces a lawsuit with no hope of remuneration and the prospect of mounting legal bills or an escape route [of paying a settlement to a patent assertion entity] for a fraction of those bills will almost always chose the escape route even where that payment is not justified.”).

<sup>51</sup>*Id.* at 4.

<sup>52</sup>*Id.* at 17 (capitalization altered).

Consistent with our arguments, the Supreme Court rejected the Federal Circuit’s framework for fee shifting as being “unduly rigid.”<sup>53</sup> Instead, the Court adopted a “totality of the circumstances” rule, permitting district courts to use their discretion to determine whether a case was “one that stands out from others with respect to the substantive strength of a party’s litigating position (considering both the governing law and the facts of the case) or the unreasonable manner in which the case was litigated.”<sup>54</sup>

Perhaps most noteworthy about the Supreme Court’s decision in *Octane Fitness* is the uniform rejection of the Federal Circuit’s justifications. *Octane Fitness* effectively overruled a Federal Circuit case known as *Brooks Furniture Manufacturing, Inc. v. Dutilier International, Inc.*, which had imposed that now-defunct higher bar for fee shifting.<sup>55</sup> The Court found three defects with *Brooks Furniture*. First, *Brooks Furniture* had derived its strict rule from Supreme Court precedent on the *Noerr-Pennington* doctrine on protecting the First Amendment right to petition.<sup>56</sup> But the Court rejected this analogy, saying that the need to protect patent owners from claims of legal fees was an order of magnitude off from the need to protect litigants’ rights to access courts.<sup>57</sup> Second, *Octane Fitness* noted that the *Brooks Furniture* standard for fee shifting was so high, that it would be rendered superfluous.<sup>58</sup> Finally, the Supreme Court rejected the Federal Circuit’s notion that entitlement to a fee shifting award must be proven by “clear and convincing evidence,” on the grounds that no other fee shifting statute had ever been interpreted to require such a high showing of evidence.<sup>59</sup>

The discrepancy between *Brooks Furniture* and *Octane Fitness* reflects a larger trend of discrepancies between the Federal Circuit and the Supreme Court. The Federal Circuit’s decisions, such as those in *Brooks Furniture*, have led some commentators to criticize the

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<sup>53</sup>*Octane Fitness, LLC v. Icon Health & Fitness, Inc.*, 134 S. Ct. 1749, 1755 (2014).

<sup>54</sup>*Id.* at 1756.

<sup>55</sup>*See Brooks Furniture Mfg., Inc. v. Dutilier Int’l, Inc.*, 393 F.3d 1378, 1381 (Fed. Cir. 2005).

<sup>56</sup>*See Octane Fitness*, 134 S. Ct. at 1757.

<sup>57</sup>*See id.* at 1757–58.

<sup>58</sup>*See id.* at 1758.

<sup>59</sup>*See id.*

court for taking an unbalanced position favoring patent owners.<sup>60</sup> In contrast, as shown by the above discussion of *Octane Fitness*, *Alice*, and *Nautilus*, the Supreme Court strongly focuses on the constitutional requirement for a balanced patent system to arrive at and justify its decisions on patent law. And the other patent cases decided by the Supreme Court in its last Term, namely *Limelight Networks, Inc. v. Akamai Technologies, Inc.*<sup>61</sup> and *Medtronic, Inc. v. Mirowski Family Ventures, LLC*,<sup>62</sup> further reflect the Supreme Court's rejection of patent-friendly Federal Circuit decisions in favor of balanced, public-oriented rules of patent law.<sup>63</sup>

The Supreme Court's approach is the right one. Besides being mandated by the Constitution, it best serves the public interest in encouraging inventors with the reward of a patent while ensuring that the patent reward does not go so far as to actually undercut further innovators, small businesses, and ordinary consumers.

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<sup>60</sup>See, e.g., Matthew D. Henry & John L. Turner, *The Court of Appeals for the Federal Circuit's Impact on Patent Litigation*, 35 J. LEGAL STUD. 85, 87 (2006) ("Not surprisingly, the CAFC has earned a reputation as a pro-patent court."); Eli Dourado, *The True Story of How the Patent Bar Captured a Court and Shrank the Intellectual Commons*, CATO UNBOUND (Sept. 8, 2014), <http://www.cato-unbound.org/2014/09/08/eli-dourado/true-story-how-patent-bar-captured-court-shrank-intellectual-commons> ("The consolidation of patent appeals into a single court also concentrated the benefits that pro-patent interests could get by lobbying to affect the judicial nomination and confirmation process."); Jeff Bleich & Josh Patashnik, *The Federal Circuit Under Fire*, SAN FRANCISCO ATTORNEY, Fall 2014, at 40, 41, available at <http://www.mto.com/Templates/media/files/Reprints/Bleich%20%20Patashnik%20--%20Supreme%20Court%20Watch%20Fall%202014.pdf> ("This continues a trend stretching back several years now, in which the Supreme Court has repeatedly rejected the Federal Circuit's patent-friendly approach in a range of cases . . ."); Timothy B. Lee, *Obama Wants to Fix the Patent System. Here's a Crucial Reform He Overlooked*, WASHINGTON POST: THE SWITCH (Jan. 29, 2014), <http://www.washingtonpost.com/blogs/the-switch/wp/2014/01/29/obama-wants-to-fix-the-patent-system-heres-a-crucial-reform-he-overlooked/> ("And the Supreme Court's repeated reversals of patent-friendly rulings suggest that the [Federal Circuit] is biased toward the interests of trolls and other patent holders.").

<sup>61</sup>See *Limelight Networks, Inc. v. Akamai Techs., Inc.*, 134 S. Ct. 2111, 2117 (2014) (rejecting Federal Circuit's novel indirect infringement theory as "fundamentally misunderstand[ing] what it means to infringe a method patent").

<sup>62</sup>See *Medtronic, Inc. v. Mirowski Family Ventures, LLC*, 134 S. Ct. 843, 851 (2014) (rejecting Federal Circuit's rule swapping burden of proof from patent owners to defendants, because "we see no convincing reason why burden of proof law should favor the patentee").

<sup>63</sup>See generally Robin Feldman, *Coming of Age for the Federal Circuit*, 18 GREEN BAG 2D 27 (2014), available at [http://www.greenbag.org/v18n1/v18n1\\_articles\\_feldman.pdf](http://www.greenbag.org/v18n1/v18n1_articles_feldman.pdf) (describing the contrary approaches of the Federal Circuit and the Supreme Court to patent law).

### III. LEGISLATIVE PATENT REFORM MUST MOVE FORWARD, BECAUSE CONGRESS IS FOCUSING ON DIFFERENT ASPECTS OF THE PATENT SYSTEM THAN THE SUPREME COURT DECISIONS ADDRESS

Given that the Supreme Court has made substantial progress toward achieving a balanced patent system, members of Congress may ask what role remains for them to play in patent reform. Indeed, many of those entrenched in the patent status quo have claimed that congressional efforts are no longer needed, because the Supreme Court has taken care of patent reform.<sup>64</sup>

The answer is that there is still an enormous role for Congress to play in patent reform, because Congress and the courts are addressing different aspects of a very large set of systemic problems with the patent system. Specifically, Congress has primarily focused on *procedure* for using patents after they are issued, such as sending of patent demand letters,<sup>65</sup> litigation over patents,<sup>66</sup> and post-grant proceedings before the U.S. Patent and Trademark Office.<sup>67</sup> In contrast, the Supreme Court cases have primarily focused on the *substance* of what patents ought to properly exist and what those patents cover.<sup>68</sup>

It might seem that *Octane Fitness* is the exception because that case deals with litigation procedure. But in fact Congress is dealing with a different aspect of fee shifting than *Octane Fitness* contemplated. The Supreme Court decided only what the level of fee shifting should be, in the context of particular existing statutory language that fees shall be awarded in “exceptional” cases. But Congress has the opportunity to change the statutory

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<sup>64</sup>See, e.g., Richard Lloyd, *Patent Reform Delayed, Not Dead; Pause Could Mean Better Legislation, Says Market*, INNOVATION ALLIANCE (May 22, 2014), <http://innovationalliance.net/patent-news/intellectual-asset-management-patent-reform-delayed-dead-pause-mean-better-legislation-says-market-richard-lloyd/> (“The two recent decisions on fee shifting may have been the Supreme Court telling Congress to back off and let them deal with it.” (quoting Anthony Hayes, Spherix)); Ashby Jones, *Patent Reform Bill Arises Again in Congress*, WALL STREET JOURNAL: LAW BLOG (Feb. 5, 2015), <http://blogs.wsj.com/law/2015/02/05/patent-reform-bill-arises-again-in-congress/> (“A host of biotech companies and others—including Qualcomm Inc., Merck & Co., and Monsanto Co.—object to the bill, claiming recent other measures have adequately reined in the worst litigation abuses.”).

<sup>65</sup>See Demand Letter Transparency Act, H.R. 3540, 113th Cong. (2013).

<sup>66</sup>See Innovation Act, H.R. 3309, 113th Cong. (2013); Patent Abuse Reduction Act, S. 1013, 113th Cong. (2013).

<sup>67</sup>See Patent Quality Improvement Act, S. 866, 113th Cong. (2013).

<sup>68</sup>See *Alice Corp. Pty. Ltd. v. CLS Bank Int'l*, 134 S. Ct. 2347 (2014); *Nautilus, Inc. v. Biosig Instruments, Inc.*, 134 S. Ct. 2120 (2014); *Limelight Networks, Inc. v. Akamai Techs., Inc.*, 134 S. Ct. 2111 (2014).

language to better fit the realities of patent litigation today, and it has the opportunity to devise new procedures under which courts will decide whether to shift fees. The Court was bound by the existing statutory language, but Congress, being free of that restriction, may apply all of its tools of policy expertise to crafting an improved law.

There is no question that the need for Congressional action on patent reform is urgent. As I explained previously, abuses of the patent system are growing in number, magnitude, and destructive effect on the economy. Without prompt action, our current patent system will continue to step further and further away from that ideal balance of patent law that best protects and benefits the American people, making it only more likely that patents will be abused and misused, making it only more difficult as time passes to return that patent law to solid footing.

As I have stated before: “There is no silver bullet to patent reform, and improving the patent system will require a long-term, multifaceted effort.”<sup>69</sup> Congress has an important role to play in addressing that problem. A patent reform bill, the Innovation Act,<sup>70</sup> made substantial headway last year. I am encouraged to see it reintroduced, and I look forward to working with the Committee to craft a strong, effective bill that will maintain the necessary balance of patent law, protect the public interest, and promote the progress of science and the useful arts.

Thank you again for providing me with the opportunity to submit the foregoing written statement. If members of the Subcommittee have any follow-up questions, I am happy to provide further information as will be helpful.

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<sup>69</sup>DUAN, *supra* note 10, at 2.

<sup>70</sup>H.R. 3309.