



# INTELLECTUAL PROPERTY

## Google Inc. v. Oracle America Inc.

by Jeffrey L. Van Hoosear, Partner, Knobbe Martens Olson & Bear LLP

**O**n June 29, 2015, the U.S. Supreme Court denied to hear *Google Inc. v. Oracle America Inc.* This case between Google and Oracle started out as a patent and copyright infringement action over Google's use of Oracle's Java application programming interfaces (APIs) in Google's Android mobile operating system.

The jury in the District Court found no patent infringement, and that issue was not appealed. The parties had stipulated that the jury would decide the issue of copyright infringement, and the judge would rule on the issue of copyrightability. The jury found that certain API copyrights were infringed, but the judge found that the APIs were not copyrightable. On appeal, the Federal Circuit reversed, and opined that copyrightability is a "low bar" that only requires a work to be original and expressive in the sense that the author had multiple ways to express the underlying idea. The Court held that while the Java programming language was not entitled to copyright protection, those elements of the Java platform that enable the use of the shorthand commands were copyrightable.

Critics of the Federal Circuit's ruling say that it will suppress innovation and damage interoperability. It is undisputed that the Federal Circuit ruling will impact businesses which develop applications (the ubiquitous "apps") for mobile devices, such as smartphones. These businesses will now face uncertainty over the effect of the use of an API without obtaining authorization or a license. Businesses may find consolation in the fact that this uncertainty is limited to the U.S. The European Court of Justice has previously reached a different conclusion. The programming interface is not protected by copyright under European law. This difference is arguably due to a policy that the European Union previously made on the issue of

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software operability and not due solely to European copyright law.

Looking at Oracle's APIs only in the context of U.S. copyright law, and not with respect to any policy concerns, copyright protection should extend to the APIs so long as they meet the necessary criteria of "originality" and a "modicum of creativity." The "apps" industry may have been operating under the assumption that the functionality of APIs prevented anyone from possessing proprietary copyrights. This assumption is now called into question, at least temporarily, until there is a final conclusion in this case. The case is now back in the District Court for a review of the "fair use" defense that Google presented to the jury. If the parties cannot settle their issues by agreement, we expect that this matter will remain in the courts for quite some time.

### Jeffrey L. Van Hoosear

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# RUTAN

## RUTAN & TUCKER, LLP

### Revisiting Patent Opinions of Counsel on Induced Infringement

by Benjamin Deming and Ravi Mohan, Associates, Rutan & Tucker

**E**xperienced business owners are usually aware of the need to carefully review their business operations for potential intellectual property issues. Indeed, the threat of a patent infringement lawsuit is a possibility for nearly every business, no matter the industry. In the past (even as recently as the first quarter of this year), business owners could reasonably protect themselves by retaining an attorney to provide a non-infringement or clearance opinion as to any relevant patents of which the business was aware.

For example, consider the case of a manufacturing enterprise. In practice, the patent attorney generally analyzes the processes used and products made by the business and then compares them to any known patents that might conceivably be related to the process or product. Most often, the attorney issues a well-reasoned letter that identifies point-by-point each aspect of the identified patent that is not practiced by the process or product. Many times, the opinion letter also communicates reasons demonstrating why the patent claims are likely not valid, and therefore why the business owner would not be liable for any possible patent infringement.

One area in which clearance opinions have been most helpful is in avoiding charges of induced infringement. Induced infringement occurs where one entity encourages another entity to make a patented product, or otherwise engage in an activity that constitutes patent infringement. For example, imagine Acme Corporation makes a plastic medical needle guard that is intended for use with medical needles manufactured separately by Baker LLC. On its own, Acme's needle guard does not infringe Patent Owner's patent, but when combined by Baker with Baker's needles, the combination does infringe Patent Owner's patent. (See *DSU Medical Corp. v. JMS Co. Ltd.*, 471 F.3d 1293 (Fed. Cir. 2006).) In this situation, Acme is liable for actively and knowingly aiding and abetting Baker's direct infringement of the patent if Acme knew or should have known that its actions would cause Baker to infringe the patent. (35 U.S.C. §271(b).) Thus, a business owner in Acme's position would be wise to obtain a clearance opinion that provides a reasonable basis to believe that the product does not infringe any valid claims of the patent, thereby negating the "knew or should have known" aspect of the inducement analysis.

Earlier this year, the United States Supreme Court shook up this area of law when it ruled that such an opinion of counsel does not constitute a valid defense to induced infringement where the opinion is based on *invalidity* of the patent claims rather than on *non-infringement* of the patent claims. The particular issue up for consideration in *Commil USA, LLC v. Cisco Systems, Inc.*, 575 U. S. \_\_\_ (May 26, 2015), was whether a business accused of inducing patent infringement could rely on an invalidity-based opinion to show that the "knew or should have known" aspect was not satisfied. *Commil*, 575 U.S. \_\_\_ at 4-5. In ruling that the business owner may not rely on invalidity alone, the court stated that "invalidity is not a defense to infringement, it is a defense to liability. And because of that fact, a belief as to invalidity cannot negate the scienter required for induced infringement." *Commil*, 575 U.S. \_\_\_ at 11.

In light of this new case law, business owners would be prudent to revisit any opinions of counsel they may have commissioned, particularly where those opinions rely on the supposed invalidity of patent claims to avoid liability, as opposed to relying on non-infringement positions. If the patent owner is litigious, statements made by the patent owner during litigation may be especially helpful in distinguishing the patent claims from your own business activities.

And, while your patent attorney is revisiting opinions on method or process patents drafted more than a year ago, the June 2014 Supreme Court decision in *Akamai v. Limelight*, 134 S.Ct. 2111 (2014) may also be helpful. That decision establishes that in order to have induced infringement, there must first be a single infringing entity that performs all of the claimed steps. *Limelight*, 134 S.Ct. at 2117. Therefore, when the claimed steps are divided amongst multiple entities, no single entity practices each step of the claimed invention, and there is no direct infringement. And, where there is no direct infringement, there can be no induced infringement, either. Therefore, if a patented manufacturing method comprises steps A, B, C, and D, a manufacturer would have a good basis for non-infringement under the *Limelight* decision if it

practices steps A, B, and C, but step D is performed by the customer.

The one-two combination of *Commil* and *Limelight* have altered the law of induced infringement enough that business owners should carefully consider whether any rendered patent opinions need updating. If viable non-infringement positions are unavailable, it may be necessary to consider redesign of relevant business methods and/or products to avoid an infringement claim.

Finally, it is worth exploring whether the *Commil* decision has any bearing on another (and perhaps more common) aspect of clearance opinions – using the opinion as a defense to charges of willful infringement. Simply put, *Commil* was directed specifically to the use of an invalidity opinion in the context of defending against *induced* infringement. Consequently, the opinion does not affirmatively address willfulness. On the other hand, because much of the logic involved in the Court's decision may also apply to willfulness, lower courts might begin to also look at *Commil* in this context.

To demonstrate willful infringement, the patent owner must prove that the accused infringer knew or should have known that its actions constituted infringement of a valid and enforceable patent. (See *In re Seagate Technology, LLC*, 497 F. 3d 1360, 1371.) One could easily make the argument that this willfulness standard is not much different than the inducement standard was prior to *Commil*. And, under the *Commil analysis*, the issue of validity really has no bearing on willful *infringement*.

Consider again this quote from *Commil*, but substitute the word "willful" in place of "induced": "[I]nvalidity is not a defense to infringement, it is a defense to liability. And because of that fact, a belief as to invalidity cannot negate the scienter required for [willful] infringement." *Commil*, 575 U. S. at 11. If this logic was used by the Court in the context of induced infringement, it is plausible that the same logic might someday be applied in the context of willful infringement. However, it is important to note that the *Commil* decision has not (yet) been expanded by any court to reach the issue of willful infringement.

Opinions of counsel remain an important part of any business owner's best practices, but it is also a good idea to occasionally revisit those opinions. You just might find that the law has changed in your favor.

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## LAW OFFICES

## Supreme Court Ruling Encourages Courts to Award Attorney's Fees

by Al Gess, Partner, and Teddie Hsu, Associate, Snell & Wilmer

**H**ave you ever wished you could make the abusive party on the other side of your patent suit pay for your attorney's fees? The U.S. Supreme Court has made your wish a reality. Recent U.S. Supreme Court precedent has made it easier to obtain attorney's fees in patent cases, especially in lawsuits initiated by non-practicing entities (NPEs). Colloquially known as "patent trolls," NPEs center their business model on the compilation and assertion of patents against companies in the hopes of receiving licensing fees or court awarded judgments. Although currently not illegal, the business practices of NPEs have typically been frowned upon by both practitioners and legislators alike. While legislation addressing the issue of NPEs has been slow in development, the U.S. Supreme Court has been very active in this regard. With their holdings in *Octane Fitness, LLC v. Icon Health & Fitness, Inc.* (*Octane Fitness*) and *Highmark Inc. v. Allcare Health Management System, Inc.* (*Highmark*), the Court lowered the standard for awarding attorney's fees to the winner of a lawsuit and made clear the standard of review to be used by appellate courts in attorney's fees appeals.

### What is an "exceptional case"?

Courts are given discretion under 35 U.S.C. § 285 to award attorney's fees to the prevailing party in a patent suit in "exceptional cases." The standard for an "exceptional case" was previously established in *Brooks Furniture Mfg. v. Dutailier Int'l, Inc.* (*Brooks*), where the Federal Circuit held that an "exceptional case" must either involve material inappropriate conduct, or litigation that is both objectively baseless and brought in subjective bad faith. This is a fairly high standard, and as a result, attorney's fees were not often sought nor awarded by courts.

In *Octane Fitness*, defendant Octane Fitness was sued by plaintiff Icon for allegedly infringing a patent for an elliptical machine. Although Icon, a manufacturer and seller of exercise equipment, held a patent for the elliptical machine, Icon did not actually manufacture or sell that particular elliptical machine.

Octane Fitness prevailed in the district court, but was denied attorney's fees under 35 U.S.C. § 285 because the case was not an "exceptional case." On appeal, the Federal Circuit affirmed the district court's decision, agreeing that the case was not an "exceptional case." Both courts followed the standard set forth in *Brooks*. Even though defendant Icon never sold any products using the patented technology, both courts found that this was not an "exceptional case" that justified an award of attorney's fees to Octane Fitness.

The Supreme Court reversed the Federal Circuit decision in *Octane Fitness*, effectively overturning *Brooks*. The Court directed district courts to exercise their full discretion and consider the totality of the circumstances when making a determination of what is an "exceptional case." The Court also discarded the Federal Circuit's requirement that litigants establish entitlement to fees by clear and convincing evidence, holding that 35 U.S.C. § 285 "demands a simple discretionary inquiry" which "imposes no specific evidentiary burden, much less such a high one."

Although the Court did not define what "exceptional cases" means, it may be implied that frivolous suits, such as those brought by NPEs, fall into that category. Moreover, the bar for establishing an "exceptional case" has been lowered significantly.

### An award of attorney's fees is now harder to reverse on appeal

In *Highmark*, a companion case to *Octane Fitness*, the U.S. Supreme Court addressed and clarified the standard for an appellate court's review of an award of attorney's fees. Defendant Highmark Inc. won in a patent infringement case and was awarded attorney's fees. The district court held that the case was an "exceptional case" because of plaintiff Allcare Health Management System's "pattern of vexatious and deceitful conduct throughout the litigation." On appeal, the Federal Circuit reversed the attorney's fee award, and overturned the district court's finding that it was an "exceptional case" by applying its longstanding *de novo* standard of review.

The U.S. Supreme Court vacated the Federal Circuit's judgment, rejected the *de novo* standard of review and established an abuse of discretion standard. In contrast to *de novo*, where a case is reviewed anew, the abuse of discretion standard instructs appellate courts to overturn a holding regarding attorney's fees only when there was an abuse of discretion by the district court involved.

### When to seek attorney's fees

In light of *Octane Fitness* and *Highmark*, litigants should always keep in mind the very real option of obtaining attorney's fees. The U.S. Supreme Court is hoping that the high likelihood of being awarded attorney's fees and the low likelihood of the award being overturned on appeal will serve to prevent future abusive lawsuits, especially by NPEs. In currently pending patent infringement cases, defending litigants may want to consider the likelihood of being awarded attorney's fees as a bargaining chip in settlement negotiations.

### Conclusion

The *Octane Fitness* and *Highmark* cases can be viewed as a big blow to NPEs and a big win for everyone else. These two cases put patent owners generally, and NPEs, in particular, on notice that they need to conduct proper due diligence before bringing a patent infringement suit or counterclaim. *Octane Fitness* and *Highmark* relate to all litigants in all patent cases, not just those involving NPEs. As a result, companies should be wary of whether their own litigation practices are overly aggressive or unreasonable. The end result of *Octane Fitness* and *Highmark* will undoubtedly reduce abusive patent litigation practices, and may very well reduce the number of patent infringement cases filed.

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## The Resurrection of Initial Interest Confusion?

by Robert Scott Lawrence, Senior Attorney, Callahan & Blaine

Some of you may recall the early Wild West days of the Internet, long before the advent of the ubiquitous iPhone and its progeny, before apps, before cheap high-speed DSL was demanded as a natural right, before you could actually stream...well...anything. In those ancient days of 28.8Kbps dial-up connectivity we sat at our computers dumbly staring at the screen after entering a search term on AltaVista, Dogpile, Excite, Lycos, or – everyone's favorite – Ask Jeeves, and after an interminable amount of time something came up on the screen. While the logic of the search results were not always what you would hope for, in most cases the results were better than the answers you received consulting a Magic 8 Ball or thumbing through the Yellow Pages, even considering that the web in those days consisted of a mere 100,000 or so websites.

Even back then, however, the power of being No. 1 in the search results was relatively obvious, and more than a fair share of Internet pioneers were willing to go to great lengths to achieve the mythological status of being No. 1. Of course, every new technology has growing pains, and obtaining a high page ranking in search results was the result of a lot of trial and error and experimentation by people we now blithely refer to as "SEO optimization experts." This handy sobriquet is really just a euphemism for people whose livelihoods depend on finding useful loopholes in the system they can manipulate to achieve the results they want. In the early days, that manipulation depended in part on such things as keyword stuffing and hidden content. The act of keyword stuffing not only occurs in the <meta> keywords tag, but can also occur in <title> tags, <img> alt text, heading tags, anchor text, even sometimes boldly in plain body text! Sometimes ingenious SEO wizards would even hide keywords by hiding whole paragraphs of text on the page. Thus, for example, if you were attempting to siphon off goodwill and ride the coattails of a famous competitor, you would liberally spray their name or trademark all over your competing site, and even type their name over and over and over and over – like wallpaper – in white text on a white background incapable of being picked up by the human eye [but visible to the search engine]. Though these techniques are disfavored now, and in fact no longer work, back then the law had yet to catch up to human ingenuity.

Given the litigious nature of humanity, it wasn't long before the courts were forced to grapple with claims that use of another's name or trademark on a competitor's site – even hidden use – constituted anticompetitive behavior. One of the most famous of the early cases addressing the doctrine of initial interest confusion, *Brookfield Communications, Inc. v. West Coast Entertainment Corp.*, posited that using another's trademark in one's metatags was akin to posting a sign with another's trademark in front of one's store. The hypothetical posed by the Ninth Circuit went thus:

Suppose West Coast's competitor (let's call it "Blockbuster") puts up a billboard on a highway reading - "West Coast Video: 2 miles ahead at Exit 7" - where West Coast is really located at Exit 8 but Blockbuster is located at Exit 7. Customers looking for West Coast's store will pull off at Exit 7 and drive around looking for it. Unable to locate West Coast, but seeing the Blockbuster store right by the highway entrance, they may simply rent there. Even consumers who prefer West Coast may find it not worth the trouble to continue searching for West Coast since there is a Blockbuster right there. Customers are not confused in the narrow sense: they are fully aware that they are purchasing from Blockbuster and they have no reason to believe that Blockbuster is related to, or in any way sponsored by, West Coast. Nevertheless, the fact that there is only initial consumer confusion does not alter the fact that Blockbuster would be misappropriating West Coast's acquired goodwill.

*Brookfield Communications. v. West Coast Entertainment Corp.*, 174 F.3d 1036, 1064 (9th Cir. Cal. 1999).

That, of course, was sixteen years ago, and the law has grown, changed, and largely come to recognize that the click of a button leading a consumer to an

internet site is not really like physically walking into the wrong video store and saying to oneself "Well, now that I'm here, I might as well grab that new video anyhow."<sup>1</sup> In the broadband era, we simply hit the back button and continue searching for the site we were originally looking for, with no lag, no downtime, no real detriment save mild irritation at having been misdirected to a site we weren't looking for or interested in. And like the consuming public, the judiciary has now lived some twenty years with the internet and is much more conversant with how it operates and the differences between online shopping and the brick-and-mortar experience. Over the last fifteen years, the doctrine of initial interest confusion has increasingly been deemed unsound by counsel, fallen out of favor with the judiciary, and many trademark practitioners thought it met its demise several years ago, with the Eastern District of New York's twin opinions in *Ascentive LLC v. Opinion Corp.*, 842 F.Supp.2d 450 (E.D.N.Y. 2011) and *deVere Group GmbH v. Opinion Corp.*, 877 F. Supp. 2d 67 (E.D.N.Y. 2012).

Last week, however, initial interest confusion reared its ugly head yet again, in the case of *Multi Time Mach., Inc. v. Amazon.com, Inc.*, 2015 U.S. App. LEXIS 11554 (9th Cir. Cal. July 6, 2015). In a 2-1 opinion, the Ninth Circuit ruled that consumers searching for plaintiff MTM's watches via Amazon's search bar could potentially be misled into believing that the search results – none of which returned an MTM watch – were somehow related to MTM, and thus be fooled into purchasing a competitor's watch. The opinion appears to turn on the fact that Amazon doesn't preface its search results by explicitly stating: "We don't sell MTM watches." While true, this is a bit like faulting a restaurant for offering you Pepsi instead of a Coke, Sprite instead of Ginger Ale, or A&W Root Beer when you really want a Dad's. Presumably, Amazon will argue in district court that its failure to list MTM watches for sale in response to a query seeking MTM watches implies that no MTM watches are for sale, and that it has no obligation to list a protectionist disclaimer for those incapable of figuring out that a null set means that you need to go elsewhere if you really want an MTM watch. As the dissent eloquently notes:

It is hard to fathom how a reasonably prudent consumer accustomed to shopping online could view Amazon's search results page and conclude that the products offered are MTM watches. Some of the products are not even watches! And the watches that are offered for sale are clearly labeled as being manufactured by Luminox, Chase-Durer, TAWATEC, or Modus – not by MTM. It is possible that some dolt somewhere might be confused by the search results page. But, "unreasonable, imprudent and inexperienced web-shoppers are not relevant."

Whether initial interest confusion is again alive and well remains to be seen. With a modicum of luck, the ruling on remand from the district court will mark this as the true death knell for initial interest confusion, the last gasp of a dying doctrine that we can now put to bed and only take out for bedtime stories about how things used to be.

<sup>1</sup> The author recognizes that the *Brookfield* case and this analogy suffer by virtue of the fact that there are no such things as "video stores" anymore, streaming internet having killed off their business model and supplanted them.

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# In-House and Outside Counsel

by Dennis Gallagher, Counsel, Haynes and Boone LLP

Orange County businesses, from large public companies to small startups, face a wide variety of cutting-edge legal issues. A challenge for any attorney is to manage these issues while meeting the varying business objectives of the individual clients.

As a young attorney at a large law firm, I knew that my legal advice needed to address my clients' objectives. I didn't truly understand what this meant until I transitioned in-house. I started my in-house career as Intellectual Property Counsel for a publicly traded, billion dollar corporation, and worked my way up to General Counsel of what eventually became a smaller, private company maneuvering through Chapter 11 bankruptcy.

One part of adjusting to life in-house involves the realization that you are not just addressing legal issues, but navigating a company through a thicket of risks, laws and regulations. Each legal issue I faced was inextricably intertwined with the current corporate structure, financial constraints, business strategies, competitive landscape, and the current status of customer and partner relationships. For example, a patent infringement allegation may pose different issues to, and merit different responses from, a large public corporation, a medium sized private company, and a small company on the verge of insolvency. Finding outside counsel who appreciates the nuanced, but significant, differences was challenging.

Most in-house counsel work under tight budgets and lack the resources to assign every issue to an outside lawyer. To handle a heavy workload, in-house attorneys tend to develop a practical understanding of the relevant business and legal issues and learn how to quickly assess risks and develop appropriate solutions. Some of my biggest challenges were finding proportional solutions to small problems that posed difficult legal issues, which often led to creative business and legal options. The more time I spent in-house, the more I began to gravitate towards outside attorneys who understood the business and legal considerations that were driving my decisions as in-house counsel, and could carry these issues forward.

I recently transitioned back to private practice at Haynes and Boone LLP and I am often asked what advice I would give to outside counsel based on my in-house experience. The first takeaway may be an obvious one: reach a clear agreement on budget expectations with your client, provide accurate budget projections, and proceed with a focused approach that takes advantage of opportunities to save on costs. These are simple steps that can go a long way towards helping your client contact look good within the



company and preserve your relationship. I often tell the story of receiving my first "surprise" invoice, an invoice that came in at twice the CEO's budget. Upon reviewing the invoice I thought, "Well ... I'm fired." I kept my job, but it was an eye-opening realization that it really is all about the

budget, and outside counsel may not fully realize the intense pressure within a company for certain individuals, namely your client contact, to hit their numbers. One place that an outside law firm is likely to be noticed and discussed by management is as a line item on a budget forecast or list of cost center expenses. If your law firm doesn't look good on the company spreadsheet, your brilliant legal work may not matter. The second takeaway is that there is a lot of room for outside counsel to improve their understanding of their client's business and objectives. I found no shortage of law firms willing to pitch litigation with cookie-cutter solutions and legal budgets that far exceeded the amount in dispute. What I needed were more attorneys who understood our business and could be counted on to further our business objectives. That's what my colleagues and I strive to provide to our clients as trusted advisors.

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## Software Inventions Are Still Patentable!

by Marin Cionca and Iris Kim, CIONCA Law Group P.C.

In June 2014, the Supreme Court ruled in *Alice Corp. v. CLS Bank* ("Alice") that the claims in the disputed software-based patent were directed to an "abstract idea," and thus were patent-ineligible under 35 U.S.C. 101. This decision led to much confusion about software invention patentability and impacted how patentability of software inventions is evaluated by patent practitioners and U.S. Patent and Trademark Office (USPTO) examiners alike.

In January 2015, USPTO supplemented their Interim Guidance on Subject Matter Eligibility issued after *Alice*, with eight sets of example claims directed to computer-implemented or software inventions. Four sets recite patent-eligible subject matter and the other four, patent-ineligible matter. Practice revealed that some examiners are not familiar with these, and it falls upon practitioners to make their cases and bring these guidelines and examples to the examiners' attention.

In Example 3, a two-step test illustrates a patentability analysis of a claim reciting digital image processing by generating a noise mask. Step 1 checks whether the invention belongs to a statutory category of invention and, if so, whether it is a "judicial exception," such as an abstract idea. Generating a mask was stated to be an abstract idea. However, when examined as a whole in Step 2, the claim represents more than that abstract idea. Steps for comparing and converting data add meaningful limitations, "improve the functioning of the claimed computer" and result in an "improved digital image." The claim is thus patentable.

Still, examiners may issue automatic 101 rejections for any software-based or computer-implemented inventions. These rejections can and do happen, and patent practitioners must appropriately respond. The Patent Trial and Appeal Board held in *Ex Parte Poisson* (February 26, 2015) that examiners must provide an evidence-based *prima facie* case of patent ineligibility.

In conclusion, it is important to adopt a thorough approach to not only drafting software patent applications, but also to working with and, if appears necessary, educating the examiners. Even after *Alice*, patent practitioners can and should advocate for broad subject matter eligibility, and for their clients' cases to be handled properly.

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