Recent SCOTUS Decisions in Intellectual Property Cases

The U.S. Supreme Court heard a landmark number of intellectual property cases during its 2013-2014 term. Below is a summary of recent decisions issued in 2014.

Lexmark International, Inc. v. Static Control Components, Inc.

On March 25, 2014, the Supreme Court in *Lexmark International, Inc. v. Static Control Components, Inc.*, No. 12-873, set a new test for whether a party has standing to bring a false advertising claim under the Lanham Act. In so holding, the Court rejected the three tests that had been developed and applied by the circuit courts. Click here to read the full Alert.

Octane Fitness, LLC v. Icon Health & Fitness, Inc. and *Highmark Inc. v. Allcare Health Management System, Inc.*

On April 29, 2014, the Supreme Court in *Octane Fitness, LLC v. Icon Health & Fitness, Inc.*, No. 12-1184, and *Highmark Inc. v. Allcare Health Management System, Inc.*, No. 12-1163, issued two decisions relaxing the standard for determining whether a case is exceptional in patent litigation while raising the standard of review. Click here to read the full Alert.

Limelight Networks, Inc. v. Akamai Technologies, Inc.

On June 2, 2014, the Supreme Court in *Limelight Networks, Inc. v. Akamai Techs., Inc.*, No. 12-786, ruled that a party can be liable for induced infringement under § 271(b) only when one party has committed direct infringement under § 271(a). This decision reinstated the so-called "single-entity rule" for inducement. Click here to read the full Alert.

Nautilus, Inc. v. BioSig Instruments, Inc.

On June 2, 2014, the Supreme Court in *Nautilus, Inc. v. BioSig Instruments, Inc.*, No. 13-369, ruled that "a patent is invalid for indefiniteness if its claims, read in light of the specification delineating the patent, and the prosecution history, fail to inform, with reasonable certainty, those skilled in the art about the scope of the invention." Click here to read the full Alert.

POM Wonderful LLC v. Coca-Cola Co.

On June 12, 2014, the Supreme Court in *POM Wonderful LLC v. Coca-Cola Co.*, No. 12-761, ruled that a competitor may bring a Lanham Act false advertising claim challenging food and beverage labels regulated by the Food and Drug Administration ("FDA") pursuant to the Federal Food, Drug, and Cosmetic Act ("FDCA"). Click here to read the full Alert.

Alice Corporation Pty. Ltd. v. CLS Bank International

On June 19, 2014, the Supreme Court in *Alice Corporation Pty. Ltd. v. CLS Bank International*, No. 13-298, unanimously held that patent claims drawn to the generic computer implementation of the abstract idea of intermediated settlement of financial transactions are not patent eligible under 35 U.S.C. § 101. Click here to read the full Alert.

American Broadcasting Companies, Inc. v. Aereo, Inc.

On June 25, 2014, the Supreme Court in *American Broadcasting Companies, Inc. v. Aereo, Inc.*, No. 13-461, held in a 6-3 majority decision that Aereo's system for capturing and recording broadcast TV programming, and then streaming that programming to individual subscribers, "performs" that programming "publicly" and so infringes the copyright holders exclusive right to transmit those works. Click here to read the full Alert.

Supreme Court Sets New Test in *Lexmark* for Whether a Party Has Standing to Bring a False Advertising Claim under the Lanham Act

On March 25, 2014, the Supreme Court in *Lexmark International, Inc. v. Static Control Components, Inc.*, No. 12-873 (Mar. 25, 2014), ruled that a two-part inquiry pairing the zone-of-interests test and a proximate-cause requirement applies when determining standing for false advertising claims under the Lanham Act, 15 U.S.C. § 1152(a). In so holding, the Court rejected the three tests that had been developed and applied by the circuit courts in favor of an inquiry grounded in principles that, according to the Court, are traditionally applied to statutorily created causes of action.

Lexmark manufactures and sells laser printers, as well as toner cartridges for those printers. Sonic Control makes and sells to third party "remanufacturers" components that are necessary to "remanufacture" or refurbish Lexmark toner cartridges. The dispute in this case arose because Static Control developed a microchip that could mimic a microchip used in Lexmark "Prebate" cartridges, which disabled a toner cartridge when the cartridge ran out of toner. In 2002, Lexmark sued Static Control for various copyright violations. Static Control counterclaimed, alleging, *inter alia*, violations of the Lanham Act's false advertising provision. Static Control alleges that Lexmark (a) "purposefully misleads end-users" to believe that they are legally required to return Prebate cartridges to Lexmark after a single use; and (b) sent letters to remanufacturers that falsely advised that it was illegal both to sell refurbished Prebate cartridges and to use Static Control's products in so doing. Lexmark moved to dismiss this claim based on Static Control's lack of standing.

In the opinion below, the Sixth Circuit had set forth the split in the circuit courts over which test applies when determining standing for false advertising claims under the Lanham Act:

- The Second and Sixth Circuits used a "reasonable interest" approach, finding that the claimant has standing if the claimant can demonstrate: (1) a reasonable interest to be protected against the alleged false advertising, and (2) a reasonable basis for believing that the interest is likely to be damaged by the alleged false advertising;
- The Seventh, Ninth, and Tenth Circuits used a categorical test, permitting Lanham Act suits only by an actual competitor making an unfair-competition claim; and
- The Third, Fifth, Eighth, and Eleventh Circuits used the "AGC" factors, which are used for determining standing for antitrust claims under the Lanham Act: (1) the causal connection between the antitrust violation and harm to the plaintiff and whether that harm was intended to be caused; (2) the nature of the plaintiff's alleged injury including the status of the plaintiff as consumer or competitor in the relevant market; (3) the directness or indirectness of the injury, and the related inquiry of whether the damages are speculative; (4) the potential for duplicative recovery or complex apportionment of damages; and (5) the existence of more direct victims of the alleged antitrust violation.

The Sixth Circuit upheld the broad "reasonable interest" approach in view of a prior decision by the same court, stating that "[b]ecause we have already addressed the appropriate level of standing . . . even if we were to prefer the approach taken by our sister circuits, we cannot overturn a prior published decision of this court absent inconsistent Supreme Court precedent or an en banc reversal." *Static Control Components, Inc. v. Lexmark Int'l, Inc.*, 697 F.3d 387, 411 (6th Cir. 2012). Applying this approach, the Sixth Circuit reversed the district court's dismissal of Static Control's false advertising claim, which had been based on an application of the "AGC" factors.

On appeal to the Supreme Court, Lexmark argued that the Court should import a multi-factor test derived from the narrow "AGC" test. Static Control argued that the proper inquiry is whether a company whose products are targeted with false advertising falls within the "zone of interests" of a statute whose text gives a remedy for false advertising about another's goods.

In its decision, the Court held that "a direct application of the zone-of-interests test and the proximate cause requirement supplies the relevant limits on who may sue." *Lexmark Int'l*, No. 12-873, slip op. at 16. In particular, a plaintiff alleging false advertising under § 1125(a) must ordinarily plead (and ultimately prove):

- "[A]n injury to a commercial interest in reputation or sales" in order to come within the zone-of-interests; and
- "[E]conomic or reputational injury flowing directly from the deception wrought by the defendant's advertising," which "occurs when deception of consumers causes them to withhold trade from the plaintiff."

Id. at 13, 15. In so holding, the Court made clear that the issue of standing to sue under § 1125(a) is grounded in statutory, not "prudential" concerns. *Id.* at 6-9.

In the Court's view, this two-part inquiry avoids the extremes of the "reasonable interest" test, which the Court characterized as effectively requiring only the bare minimum Article III standing and does not reflect the protections provided by § 1125(a); and the categorical direct-competitor test, which the Court found too broadly limits protection to just a false-advertiser's direct competitors. *Id.* at 17-18. The Court also wished to avoid the unpredictability of the AGC multi-factor test, which in application can be problematic and arbitrary, according to the Court. *Id.* at 16-17.

Applying this inquiry, the Court concluded that Static Control pleaded an adequate basis to proceed under § 1125(a) and is entitled to a chance to prove its case.

To find out how the Supreme Court's decision in *Lexmark* affects your interests, please contact your usual Ropes & Gray attorney or one of the following Ropes & Gray attorneys: Peter Brody, Gene Lee, Gabrielle Higgins, Jennifer Kwon, Mariel Goetz.

Supreme Court Relaxes Standard For Determining Whether A Case Is Exceptional In Patent Litigation While Raising The Standard Of Review

On April 29, 2014, the Supreme Court issued two decisions relating to the determination of whether a case is exceptional and award of attorneys' fees in patent litigation. The cases are *Octane Fitness, LLC v. Icon Health & Fitness, Inc.*, No. 12-1184 (April 29, 2014) and *Highmark Inc. v. Allcare Health Management System, Inc.*, No. 12-1163 (April 29, 2014).

Octane Fitness, LLC v. Icon Health & Fitness, Inc.

In the first case, *Octane Fitness, LLC v. Icon Health & Fitness, Inc.*, No. 12-1184 (April 29, 2014), the Court unanimously rejected the rigid standard that previously governed the determination of whether a case is exceptional and an award of attorneys' fees under 35 U.S.C. § 285 in favor of an approach granting discretion to the district court judge and reducing the associated evidentiary burden.

Both Octane and Icon are manufacturers of exercise equipment. The dispute arose when Icon sued Octane, alleging that several Octane products infringed an Icon patent that Icon had never commercialized. Octane Fitness prevailed on its motion for summary judgment of non-infringement, and then moved for an award of attorneys' fees, which the district court judge denied.

On appeal, the Federal Circuit affirmed the denial of attorneys' fees to the prevailing party. *Icon Health & Fitness, Inc. v. Octane Fitness, LLC*, 496 Fed. Appx. 57, 65 (Fed. Cir. 2012). In so doing, the Federal Circuit declined to reevaluate the test it had established in a previous case, wherein it held that "[a]bsent misconduct in conduct of the litigation or in securing the patents," a case is "exceptional" under 35 U.S.C. § 285 and allows for an award of attorneys' fees "only if both (1) the litigation is brought in subjective bad faith, and (2) the litigation is objectively baseless." *Brooks Furniture Mfg., Inc. v. Dutailier Int'l, Inc.*, 393 F.3d 1378, 1381 (Fed. Cir. 2005).

On appeal to the Supreme Court, Icon argued for affirmance of the test applied by the Federal Circuit, while Octane argued that the proper standard would be to allow district court judges to determine whether a case is exceptional at their discretion based on the totality of the circumstances.

In its decision, the Court rejected the Federal Circuit's standard as "overly rigid," because it "superimposes an inflexible framework onto statutory text that is inherently flexible." *Octane Fitness,* No. 12-1184, slip op. at 8. Moreover, the Court found that the standard applied by the Federal Circuit would render 35 U.S.C. § 285 superfluous in light of generally accepted common law rules on fee shifting.

The Court held that district court judges can find a case exceptional under 35 U.S.C. § 285 when the case "stands out from others with respect to the substantive strength of a party's litigating position . . . or the unreasonable manner in which the case was litigated." *Id.* at 7-8. In so holding, the Court made clear that the decision is to be made in "a case-by-case exercise of [the district court judge's] discretion, considering the totality of the circumstances." *Id.* at 8. The Court also rejected the Federal Circuit's requirement that entitlement to attorneys' fees needed to be proven by "clear and convincing evidence," because the statute itself did not require any deviation from the "preponderance of the evidence" standard generally applied to questions of patent infringement. *Id.* at 11.

Applying this new standard, the Court reversed and remanded the case for further proceedings consistent with the opinion.

Highmark Inc. v. Allcare Health Management System, Inc.

In the second decision relating to the award of attorneys' fees in patent litigation, the Supreme Court addressed the related issue of the standard for appellate review with respect to a determination of whether a case is exceptional. In *Highmark Inc. v. Allcare Health Management System, Inc.*, No. 12-1163 (April 29, 2014), the Court held that appellate review of such a ruling should be under the "abuse of discretion" standard—a standard that is highly deferential to the district court judge's determination.

Highmark runs a Blue Cross Blue Shield entity. Allcare is a non-practicing entity that owns a patent covering a health care management system. Highmark sought declaratory judgment of non-infringement, invalidity, and unenforceability, and Allcare counterclaimed for infringement. After the district court entered a final judgment of non-infringement, Highmark moved for fees under 35 U.S.C. § 285, which the district court granted.

On appeal, the Federal Circuit affirmed the exceptional case determination as to one claim of the patent-in-suit, but reversed as to another. *Highmark Inc. v. Allcare Health Management System, Inc.*, 687 F.3d 1300, 1311-1315 (Fed. Cir. 2012). In so doing, the Federal Circuit undertook a *de novo* review of the district court's decision.

In a unanimous decision, the Supreme Court noted that it had concurrently rejected the Federal Circuit's test for determining whether a case is exceptional as "unduly rigid and inconsistent with the text of § 285." *Highmark,* No. 12-1163, slip op. at 4. Because the Court in *Octane* committed the determination of whether a case is "exceptional" to the district court's discretion, the Court in *Highmark* ruled that such a determination must be reviewed under the "abuse of discretion" standard.

In the Court's view, the "abuse of discretion" standard is proper because the determination of whether a case is exceptional under 35 U.S.C. § 285 is left to the discretion of the district court judge. According to the Court, the statute therefore implies that deference to the district court should be afforded on appeal.

Applying this appellate standard, the Court remanded the case to the Federal Circuit for further proceedings consistent with the "abuse of discretion" standard of review.

To find out how the Supreme Court's decisions in *Octane* and *Highmark* affect your interests, please contact your usual Ropes & Gray attorney or one of the Ropes & Gray attorneys listed below.

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Supreme Court Unanimously Reverses Federal Circuit's *En Banc* Decision In *Limelight v. Akamai* and Rejects The Application Of Induced Infringement Under § 271(b) To Situations Where There Is No Direct Infringer Under § 271(a)line

On June 2, 2014, the Supreme Court in *Limelight Networks, Inc. v. Akamai Techs., Inc.*, No. 12-786, ruled that a party can be liable for induced infringement under § 271(b) only when one party has committed direct infringement under § 271(a). This decision reinstated the so-called "single-entity rule" for inducement.

The dispute in this case arose when Akamai brought allegations of direct infringement against Limelight. The asserted claims were directed to methods for content delivery for websites, and Limelight did not perform one of the steps of the asserted claim; Limelight's customers performed the last step. The district court overturned a jury verdict of infringement and held that there was no infringement by Limelight as a matter of law. The Federal Circuit affirmed that decision under the "direction or control" standard set forth in *Muniauction, Inc. v. Thomson Corp.*, 532 F.3d 1318 (2008), finding that, because there was no agency relationship or contractual obligation between Limelight and its customers, Limelight could not be liable for direct infringement.

The Federal Circuit reviewed *en banc* the *Akamai* case and another case involving joint infringement, *McKesson Techs. Inc. v. Epic Sys. Corp.* The Federal Circuit found that both cases could be resolved based only on indirect infringement liability. The *en banc* court rejected the "single entity" rule for induced infringement and differentiated between *acts* of direct infringement, which are a predicate to inducement, and the need for *liability* for those acts. The court held that indirect infringement under § 271(b) was independent from the conduct described in § 271(a) for direct infringement, and that the predicate act of infringement for liability under § 271(b) did not need to qualify as an act that would make a person liable as a direct infringer under § 271(a). The Federal Circuit held further that a party could be liable for inducement if it induced another to perform some of the steps of the claimed method and performed the remaining steps itself.

The U.S. Supreme Court granted *certiorari* for both cases. The *McKesson* case settled before oral argument, so only the *Akamai* case was argued before the Court. Limelight argued that inducement requires proof of actionable direct infringement. Akamai argued both that no actionable direct infringement is required for a finding of inducement under § 271(b) and that Limelight should also be found liable for direct infringement under § 271(a) because it directed or controlled its customers.

In its unanimous decision, the Court rejected the Federal Circuit's analysis of § 271(b) as "fundamentally misunderstand[ing] what it means to infringe a method patent." *Limelight Networks, Inc.*, No. 12-786, slip op. at 5. The Court reasoned that the standard applied by the Federal Circuit would "deprive § 271(b) of ascertainable standards" and "would require the courts to develop two parallel bodies of infringement law: one for liability for direct infringement, and one for liability for inducement." *Id.* at 6.

The Court declined to review the Federal Circuit's *Muniauction* decision, and noted that the Supreme Court rendered its decision on the assumption that the direct infringement standard set forth in *Muniauction* was correct. Applying that standard, the Court held that there was no direct infringement of the asserted method claims because the performance of all of the claimed steps "is not attributable to any one person." *Limelight*

Networks, Inc., No. 12-786, slip op. at 6. The Court thus determined that, because there was no direct infringement, "Limelight cannot be liable for inducing infringement that never came to pass." *Id.* at 6-7.

Citing the history and origins of § 271(f) as an example, the Court also noted that any change to liability under § 271(b) should come from Congress: "[W]hen Congress wishes to impose liability for inducing activity that does not itself constitute direct infringement, it knows precisely how to do so. The courts should not create liability for inducement of non-infringing conduct where Congress has elected not to extend that concept." *Id.* at 7.

The Court reversed and remanded the case for further proceedings consistent with the opinion. Though it declined to address the Federal Circuit's *Muniauction* decision, the Court noted that the Federal Circuit, on remand, "will have the opportunity to revisit the § 271(a) question if it so chooses." *Limelight Networks, Inc.*, No. 12-786, slip op. at 10.

To find out how the Supreme decision in *Limelight* affects your interest, please contact your usual Ropes & Gray attorney or one of the Ropes & Gray attorneys listed below.

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Supreme Court Decides *Nautilus v. BioSig* and Unanimously Eliminates Federal Circuit's "Insolubly Ambiguous" Standard for Indefinitenes

On June 2, 2014, the Supreme Court in *Nautilus, Inc. v. BioSig Instruments, Inc.*, No. 13-369, ruled that "a patent is invalid for indefiniteness if its claims, read in light of the specification delineating the patent, and the prosecution history, fail to inform, with reasonable certainty, those skilled in the art about the scope of the invention." In doing so, the Supreme Court rejected the Federal Circuit's standard that a patent claim satisfies 35 U.S.C. § 112, ¶ 2, if it is "amenable to construction" and, once construed, found not to be "insolubly ambiguous."

BioSig Instruments, Inc. ("BioSig") manufactures and sells fitness electronics, and is the assignee of the asserted patent, U.S. Patent No. 5,337,753, which generally concerns heart rate monitors used in connection with exercise equipment. Nautilus, Inc. ("Nautilus") manufactures and sells exercise equipment. This dispute arose when BioSig allegedly disclosed the patented technology to Nautilus's predecessor company, StairMaster Sports Medical Products, Inc. ("StairMaster"). During negotiations, StairMaster purportedly began using BioSig's patented heart rate monitor technology in its equipment without permission, thereby prompting BioSig's patent infringement suit against Nautilus in 2004.

During a *Markman* hearing, the district court construed the term "in spaced relationship with each other" to mean "there is a defined relationship between the live electrode and the common electrode on one side of the cylindrical bar and the same or a different defined relationship between the live electrode and the common electrode on the other side of the cylindrical bar," but did not refer to the width of the electrode as Biosig had during reexamination. Subsequently, the district court granted Nautilus's motion for summary judgment of invalidity for indefiniteness. The district court found that the words "spaced relationship did not tell [the court] or anyone what precisely the space should be" or provide "any parameters" to define the spacing. *BioSig Instruments, Inc. v. Nautilus, Inc.,* 715 F.3d 891, 899 (Fed. Cir. 2013) (citation and internal quotation omitted).

On appeal, the Federal Circuit reversed, finding the claims not invalid for indefiniteness. *Id.* at 893. The majority opined that intrinsic evidence indicated the boundaries of the term, since the distance between the heart rate monitor's electrodes had to be less than the width of a user's hands, but also not infinitesimally small because the electrodes needed to remain separate so there are two detection points. *Id.* at 898-903. Moreover, the majority concluded that a skilled artisan would be able to conduct a test to determine what constitutes a "spaced relationship" in connection with the recited function of substantial removal of electromyogram signals. *Id.* Concurring Judge Schall wrote that "spaced relationship" means any "fixed spatial relationship" between the electrodes. *Id.* at 905.

The Supreme Court overruled the Federal Circuit, unanimously eliminating the Federal Circuit's test that "a patent claim passes the §112, ¶2 threshold so long as the claim is 'amenable to construction,' and the claim, as construed, is not 'insolubly ambiguous.'" *Nautilus, Inc.*, No. 13-369, slip. op. at 1 (citation omitted). The Court stated, "Section 112 ... entails a 'delicate balance'" between the "inherent limitations of language" and the precision necessary "to afford clear notice of what is claimed." *Id.* at 9-10. "[R]econcil[ing] [those] concerns that tug in opposite directions," the Court interpreted Section 112, ¶ 2, "to require that a patent's claims, viewed in the light of the specification and prosecution history, inform those skilled in the art about the scope of the invention with reasonable certainty." *Id.* at 11. This standard, the Court stated, "mandates clarity, while recognizing that absolute precision is unattainable" and "accords with opinions of this Court stating that 'the certainty which the law requires in patents is not greater than is reasonable, having regard to their subject-matter.'" *Id.* (citation omitted). The Court did not opine on the validity of the '753 patent, and remanded the issue to the Federal Circuit for reconsideration under this new standard. *Id.* at 14.

To find out how the Supreme decision in *Nautilus* affects your interest, please contact your usual Ropes & Gray attorney or one of the Ropes & Gray attorneys listed below.

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Supreme Court Unanimously Reverses Ninth Circuit's Decision in *POM Wonderful v. Coca-Cola*

Ruling That Competitors May Bring Lanham Act Claims Challenging FDA-Regulated Food and Beverage Labels Could Impact Other Categories of FDA-Regulated Products

On June 12, 2014, the Supreme Court in *POM Wonderful LLC v. Coca-Cola Co.*, No. 12-761, ruled that a competitor may bring a Lanham Act false advertising claim challenging food and beverage labels regulated by the Food and Drug Administration ("FDA") pursuant to the Federal Food, Drug, and Cosmetic Act ("FDCA"). Writing for a unanimous Court, Justice Kennedy concluded that POM's Lanham Act claims were not "precluded" by the FDCA.

Facts of the Case

POM alleged that the name and overall labeling of competitor Coca Cola's juice blend was false or misleading under the Lanham Act, a federal statute that provides a private right of action to challenge a competitor's false advertising. Coca-Cola's juice, sold under the Minute Maid brand, is labeled as "Pomegranate Blueberry" (with the words "Flavored Blend of 5 Juices" in a smaller font), yet it contains only 0.3% pomegranate juice and 0.2% blueberry juice. Coca-Cola asserted this name and label comply with the applicable FDA regulation addressing the labeling of juice blends. POM contended – despite the applicable FDA regulation – that the name of the juice, and presentation of this name on the product label, misleads and confuses consumers into believing that the product contains primarily pomegranate and blueberry juices. The Ninth Circuit had barred POM's Lanham Act claim in part because of the FDA's "comprehensive regulation" of food and beverage labeling, including the specific regulation addressing juice blends.

The Court's Ruling

In reversing the Ninth Circuit, the Supreme Court observed that although this is not a state preemption case, preemption principles are nonetheless "instructive" for the applicable preclusion analysis. The Court noted that neither the Lanham Act nor the FDCA expressly prohibits or limits Lanham Act claims challenging labels of FDA-regulated products. Because the Lanham Act and the FDCA have coexisted for roughly 70 years, the Court viewed Congress's decision not to adopt any preclusion provision as "powerful evidence" that Congress did not intend the FDCA to be the only means for ensuring proper food and beverage labeling. Moreover, the Court did not view Congress's adoption in 1990 of a provision expressly preempting certain *state* food and beverage labeling requirements as suggesting an intent to preclude *federal* Lanham Act claims. The omission of any mention of preclusion of federal laws from the preemption provision suggested the opposite intent, if anything, according to the Court.

Moreover, the Court found that the FDCA and the Lanham Act complement each other in the area of food and beverage labeling. While the Lanham Act protects commercial interests against unfair competition, the FDCA protects public health and safety. The Court suggested that Lanham Act lawsuits that touch on the same subject matter as the FDCA "provide incentives for manufacturers to behave well" and reasoned that permitting such lawsuits "takes advantage of synergies among multiple methods of regulation." The Court indicated that if Lanham Act claims challenging food and beverage labeling were to be precluded, then competitors (and indirectly the public) would have less effective protection from false advertising in the food and beverage industry than in other, less regulated industries because the FDA does not preapprove food and beverage labels and does not enforce against all objectionable labels.

The Court rejected Coca-Cola's argument that POM's claims should be precluded because Congress intended national uniformity in food and beverage labeling based on three aspects of the FDCA proffered by Coca-Cola. First, the Court thought that the vesting of enforcement authority under the FDCA solely in the federal government did not indicate Congress's intent to foreclose private enforcement under other federal statutes. Second, the Court recognized that the FDCA's preemption provision applicable to food and beverage labeling expressly applies only to certain state law requirements and not to federal law. Third, the Court acknowledged that the FDCA and FDA regulations address food and beverage labeling with far more specificity than the Lanham Act but indicated this specificity would only matter if the two statutes "cannot be implemented in full at the same time," which the Court thought was not the case.

The Court also rejected the argument of the federal Government, appearing as *amicus curiae*, that a Lanham Act claim is precluded to the extent the FDA or FDA regulations specifically require or authorize the challenged aspects of the label. The Court rejected the Government's premise that the FDCA and FDA regulations act as a "ceiling" on the regulation of food and beverage labeling in some instances. The FDA's rulemaking on juice blends did not address or even reference the Lanham Act, so the Court held that it was "a bridge too far" to accept an after the fact statement from the Government to justify using the FDA's regulation as a basis for finding preclusion of Lanham Act claims. Additionally, the Court thought the Government's proposed standard would also be impractical because of the difficult line-drawing exercise that would be necessary to distinguish a regulation that "specifically authorizes" conduct from a regulation that "merely tolerates" that conduct. Significantly, the Court did not directly address the aspect of the Government's argument focused on Lanham Act claims that implicate specific FDA *requirements* (e.g., a claim challenging the use of a word in a label that is expressly mandated, rather than merely authorized, by an FDA regulation).

Implications for Manufacturers of FDA-Regulated Products

The Court's decision indicates that food and beverage labeling can still be false or misleading for Lanham Act purposes, even if such labeling complies with all applicable FDA regulations. Going forward, food and beverage manufacturers will need to recognize that compliance with FDA regulations may not necessarily insulate them from Lanham Act liability. Additionally, food and beverage companies may now be able to use the Lanham Act to challenge their competitors' labeling and promotional practices. Similarly, with respect to consumer class actions under state law challenging food and beverage labels, the Court's opinion said nothing to suggest that such claims, if not expressly preempted, are otherwise precluded.

Notably, throughout the opinion, the Court carefully avoided making a blanket statement that *all* Lanham Act claims challenging food and beverage labels are not precluded. Instead, the Court held that the FDCA does not preclude Lanham Act suits "like POM's" or "like the one brought by POM in this case." This limiting language appears to leave open the possibility that a Lanham Act suit *unlike* POM's – perhaps challenging an aspect of food and beverage labeling that would create a real conflict between the Lanham Act and a specific FDA requirement (as opposed to a mere authorization) – may still be barred.

The Court also carefully limited its holding to the context of food and beverage labeling, rather than the broader context of all FDA-regulated products. As part of its rationale for permitting Lanham Act claims challenging food and beverage labels, the Court noted that the FDA does not preapprove food and beverage labels, unlike certain drug labels, and observed that the FDA's oversight of food is "less extensive" than its oversight of drugs.

While the scope of the Court's decision was expressly limited to food and beverages, it may nonetheless have significant implications for other categories of FDA-regulated products, particularly dietary supplements, cosmetics, and tobacco products, because, as with foods, the FDA does not review and pre-approve labeling for these categories of products. On the other hand, the Court's distinction between the FDA's oversight of foods versus drugs suggests that the logic of the Court's holding may not apply with the same force to an analogous case challenging a drug or medical device label that has been affirmatively approved by the FDA. The breadth of the decision, however, remains unclear – particularly for product categories like over the-counter drugs marketed pursuant to an OTC monograph and 510(k)-exempt medical devices, where FDA does not review and approve labeling on a product-by-product basis. Also unclear is how the decision would apply to devices that FDA clears for marketing under the 510(k) premarket notification program, in which FDA reviews sample product labeling prior to clearance but does not officially "approve" it.

Ropes & Gray will continue to monitor the development of Lanham Act jurisprudence in the lower courts that impacts FDA-regulated products following the Supreme Court's decision in*POM Wonderful*. To find out how the decision in *POM Wonderful* affects your interest, please contact your usual Ropes & Gray attorney or one of the Ropes & Gray attorneys listed below.

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Supreme Court Rules that a Generic Computer Application of a Fundamental Concept is Not Patent Eligible in *Alice Corp. v. CLS Bank*

On June 19, 2014, the Supreme Court in *Alice Corporation Pty. Ltd. v. CLS Bank International*, No. 13-298, unanimously held that software relating to a computerized scheme for mitigating "settlement risk" was not patent eligible under 35 U.S.C. § 101. Applying the two-part inquiry outlined by the Court in *Mayo Collaborative Servs. v. Prometheus Labs.*, the Court found that the claims at issue were drawn to an abstract idea, and that nothing in the claims rose to the level of an inventive concept sufficient to transform that abstract idea into a patent eligible invention.

The patent claims at issue in *Alice Corp.* generally concern a computerized platform through which a trusted third party, acting as an escrow or intermediary, can verify that each party to a financial transaction is able to perform its obligations under the transaction, before the parties actually perform. The patents included method claims, computer-readable media claims, and system claims.

The Federal Circuit *en banc*, in a one paragraph *per curiam* opinion, affirmed the district court's decision finding all asserted claims to be patent ineligible under § 101. A majority of the panel (7-3) voted to strike down the method and computer-readable media claims as merely claiming a patent ineligible abstract idea, whereas the panel was evenly split as to whether the system claims were directed to patent eligible subject matter – though this was sufficient to affirm the decision below. In addition, a majority of the panel (8-2) agreed that all claims, regardless of their type, should be validated or invalidated together. The fractured panel authored six opinions plus "additional reflections" by former Chief Judge Rader, none of which garnered majority support.

On appeal to the Supreme Court, Alice Corp. argued that claims are patent ineligible only if they merely recite, or simply use a computer to perform, a "fundamental truth" that is "equivalent to a law of nature" and "exist[s] in principle apart from any human action," such as a mathematical formula. All other claims – including those that apply a fundamental truth in a "very specific way" (such as the patents-in-suit, in Alice Corp.'s view) – are patent eligible. CLS Bank argued that the Court's precedents control the analysis in this case: *Bilski v. Kappos*dictates that the asserted claims, which are directed to a fundamental economic principle that is conceptually no different from the claims that were at issue in *Bilski*, recite an abstract idea; and *Mayo v. Prometheus* dictates that the asserted claims are not patent eligible because they lack an inventive concept sufficient to transform the underlying patent ineligible abstract idea into a patent eligible invention.

In determining that the claims were directed to a patent ineligible abstract idea that is beyond the scope of § 101, the Court drew heavily on its decision in *Bilski* to find that the claimed concept of intermediated settlement is "a fundamental economic practice long prevalent in our system of commerce." The Court emphasized that the concern driving § 101 is "pre-emption" – "that patent law not inhibit further discovery by improperly tying up the future use of these building blocks of human ingenuity." Thus, the Court was unmoved by Alice Corp.'s attempt to narrow § 101, again citing *Bilski*, in which all of the claims – including one that reduced an abstract idea to a mathematical formula – were held to be patent ineligible abstract ideas.

In determining that nothing in the claims transformed the abstract idea into a patent eligible invention, the Court, drawing on its precedents in *Mayo*, *Parker v. Flook*, and *Diamond v. Diehr*, found that the generic computer implementation of the claims was insufficient to supply the necessary inventive concept to transform an abstract idea into a patent eligible invention, noting that the process could be carried out on existing computers. While the Court's decision limits software patents, it does not eliminate them, especially those that "improve the functioning of a computer itself" or "effect an improvement in any other technology or technical field."

Justice Sotomayor wrote a separate concurrence, joined by Justice Ginsburg and Justice Breyer. Parroting Justice Stevens' concurrence in *Bilski v. Kappos* (which was also joined by Justices Sotomayor, Ginsburg, and Breyer), Justice Sotomayor stated her view that any claim that merely describes a business method is patent ineligible due to its failure to qualify as a process under § 101.

To find out how the Supreme Court's decision in *Alice Corp.* affects your interests, please contact your usual Ropes & Gray attorney or one of the Ropes & Gray attorneys listed below.

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Supreme Court Rules in Favor of Broadcasting Companies in Aereo's Copyright Battle Over Internet Television Streaming

The United States Supreme Court on June 25, 2014, held that Aereo's system for capturing and recording broadcast TV programming, and then streaming that programming to individual subscribers, "performs" that programming "publicly" and so infringes the copyright holders exclusive right to transmit those works. In finding the Aereo system to directly infringe the transmit clause, the Court's 6-3 majority decision in *American Broadcasting Companies, Inc. v. Aereo, Inc.*, No 13-461 (June 25, 2014), viewed the Aereo system as akin to the CATV systems that Congress had specifically brought within the Copyright Act's ambit by amending the transmit clause after the Court had earlier found those systems not to be infringed. The dissent in *Aereo* expressed the "evident feeling" that what the Aereo system did should not be allowed – perhaps under principles of secondary liability or reproduction infringement – while disagreeing with the manner in which the majority construed the Copyright Act's transmit clause to find infringement on that basis.

Aereo provided a technically complex system. It set up farms of dime-sized television antennas in certain broadcast areas. A subscriber would select a program to watch. Aereo would temporarily assign a single antenna to that subscriber. The antenna was connected to a device that stored the program locally. The service would then stream the program to the subscriber's device. If multiple subscribers wanted to watch the same program at the same time, multiple separate antennas would record the programs separately, and each would receive a personal stream of the separate recordings.

A number of broadcasters sued in New York City, alleging that the service infringed and seeking a preliminary injunction. The district court denied the injunction, which the Second Circuit affirmed. In doing so, the Second Circuit relied on its *Cartoon Network LP, LLLP v. CSC Holdings, Inc.*, 536 F.3d 121 (2d Cir. 2008) opinion on DVR technology, which found that the automated copying of content at user request did not constitute direct infringement, replaying content to the original audience did not constitute "public performance," and the copying of streaming content for the purposes of buffering did not itself constitute unlawful copying. The broadcast industry turned to the Supreme Court, which granted *certiorari* and heard oral arguments in the case in April.

The Supreme Court's analysis focused on whether the Aereo record-and-stream system infringes a copyright owner's exclusive right to "transmit or otherwise communicate a performance . . . of the [copyrighted] work . . . to the public." 17 USC 101. That right, along with Section 111 (which governs the compulsory licensing scheme for cable systems) was added to the Copyright Act through the 1976 amendments. That was done to reverse findings of the Supreme Court in *Fortnightly* and *Teleprompter* that early CATV systems, which captured broadcast signals through antennas and passed them along their systems, did not infringe.

Finding that Congress intended to create infringement liability for CATV systems and systems like them, such as Aereo's, the majority held that Aereo did "transmit" the broadcasts "publicly." Focusing on the legislative history of the 1976 Act, the Court held that Aereo's activities are substantially similar to those of CATV systems, and that they transmit. The Court showed little interest in analyzing whether internet streaming is different from CATV transmission. The dissent, in construing "transmit," made much of the fact that streaming in the Aereo system does not occur until the user starts the stream. CATV systems send the signals constantly, though the user only sees a particular broadcast when the receiver selects the right broadcast stream. The majority found the difference to be of no import.

As for the requirement that the performance be "public," the Court found the "personal" transmission that occurred in the Aereo system to be part of a public performance. The Court perceived a contrary finding to be contrary to Congress' intent and to make no difference: "[W]hether Aereo transmits from the same or separate copies, it performs the same work; it shows the same images and makes audible the same sounds." The dissent chided the majority for its analysis here as a results-driven rule, though it expressed misgivings about the system's legality on other potential copyright infringement grounds.

Aereo illustrates the difficulties that emerging technologies present to right holders, technology companies and those who invest in both. The only certainty is that the struggle between those interests will likely continue, and that the Supreme Court will, as it has done before, not grant new technologies or business methods free passes. Rather, it will continue to struggle to apply existing laws to those technologies.

To discuss how copyright law, including the Supreme Court's decision in *Aereo*, and other intellectual property principles may affects your interests, please contact your usual Ropes & Gray attorney or one of the following Ropes & Gray IP attorneys listed below.

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