

Alice: Before and After

A Case Law Summary

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BILSKI V. KAPPOS, 561 U.S. 593 (2010)

FACTS AND PROCEDURAL HISTORY

The Petitioners sought a patent for a claimed invention that explains how buyers and sellers of commodities in the energy market can protect against the risk of price changes. Claim 1 describes a series of steps instructing how to hedge risk. Claim 4 puts the concept articulated in Claim 1 into a mathematical formula. The patent examiner rejected the application on the grounds that the “invention is not implemented on a specific apparatus, merely manipulates an abstract idea, and solves a purely mathematical problem.” The Board of Patent Appeals and Interferences (BPAI) agreed, explaining that the application involved only mental steps that do not transform physical matter and was directed to an abstract idea.

The Federal Circuit affirmed, holding that a claimed process is patent-eligible under § 101 only if: (1) It is tied to a particular machine or apparatus, or (2) it transforms a particular article into a different state or thing.” The Federal Circuit concluded that this “machine-or-transformation” test is the sole test governing § 101 analysis and held that the application was not patent eligible.

ANALYSIS

The Supreme Court noted that § 101 provides that the following are patent-eligible subject matter: process, machine, manufacture, or composition of matter. However, as held in *Diamond v. Chackrabarty*, 447 U.S. 303 (1980), laws of nature, physical phenomena, and abstract ideas are not patentable. Section 101 is a threshold test and the claimed invention must also satisfy § 102 (novel), § 103 (nonobvious), and § 112 (fully and particularly described).

The Court held that the Federal Circuit erred in finding that the machine-or-transformation test was the *sole* test for what constitutes a “process.” Section 100(b) defines “process” as “process, art or method, and includes a new use of a known process, machine, manufacture, composition of matter, or material.” Under *Diamond v. Diehr*, 450 U. S. 175 (1981), unless otherwise defined, words must be interpreted according to their ordinary, contemporary, and common meaning. No ordinary, contemporary, common meaning of the words “process, art or method” requires these terms to be tied to a machine or to transform an article. Instead, the machine-or-transformation test is an “important clue” for determining whether some claimed invention is a process under § 101. Notably, the Court discussed at length that § 101 does not categorically preclude the issuance of business method patents.

Despite holding that the machine-or-transformation test was not the exclusive test for a “process,” the Supreme Court still found the claims to be unpatentable, finding that the petitioners sought to patent the concept of hedging risk and the application of that concept to energy markets.

IMPLICATIONS

The Supreme Court concluded that the concept of hedging, described in Claim 1 and reduced to a mathematical formula in Claim 4, is an unpatentable abstract idea; however, the Court did not provide specific guidance as to what should be considered patentable under § 101. In light of this ruling, the Supreme Court later remanded the case of *Mayo Collaborative Services v. Prometheus Laboratories*, 566 U.S. ___ (2012) to the Federal Circuit for reconsideration.

MAYO COLLABORATIVE SERVICES V. PROMETHEUS LABORATORIES, 566 U.S. ____ (2012)

FACTS AND PROCEDURAL HISTORY

Prometheus Laboratories successfully obtained patents describing a process that allowed doctors to more accurately determine the necessary dose of thiopurine drugs. Prometheus then sold diagnostic tests embodying said process. After using Prometheus's tests, Mayo Collaborative Services developed its own test using slightly higher metabolite levels. Prometheus sued for infringement. The District Court granted summary judgment in Mayo's favor. The Federal Circuit reversed, stating that the patents satisfied the "machine-or-transformation test." The Supreme Court vacated the judgment and remanded the case for reconsideration in light of its holding in *Bilski* that the "machine-or-transformation test" is not a definitive test of patent eligibility, but only an important and useful clue. The Federal Circuit affirmed its earlier decision, essentially re-stating the same reasoning. It found that the first two steps in the claimed invention were "transformative" and that the claims as a whole were patentable. The Supreme Court again granted cert.

ANALYSIS

Like many others, this case deals with the implicit exceptions to patent-eligible subject matter: laws of nature, natural phenomena, and abstract ideas. Here, the patent at issue describes a process that purports to apply a law of nature. "[A]n *application* of a law of nature or mathematical formula to a known structure or process may well be deserving of patent protection." *Diamond v. Diehr*, 450 U. S. 175 (1981). However, to transform an unpatentable law of nature into a patent-eligible *application* of such a law, one must do more than simply state the law of nature while adding the words "apply it." *Gottschalk v. Benson*, 409 U.S. 63 (1972).

At the time the discoveries embodied by Prometheus's patents were made, scientists already understood that the levels of certain metabolites in a patient's blood were correlated to the effectiveness of a particular dosage of a thiopurine drug. The claims at issue provide findings that identify these correlations with some precision. Nonetheless, the patents simply describe a relationship that exists in nature.

The Court also addressed the danger that the grant of patents that tie up the use of natural laws will inhibit future innovation premised upon them.

IMPLICATIONS

Critics of the Supreme Court's decision cited poor reasoning and a concern for the long-term implications of the decision on medical innovation.

On July 3, 2012, the USPTO issued *interim guidance* for its examiners based on the Supreme Court's *Mayo* decision. Those guidelines contained a three-step analysis for examiners to use to ascertain whether a "process" claim is patentable:

- 1. Is the claimed invention directed to a process, defined as an act, or a series of acts or steps?**
 - a. If no, this analysis is not applicable. For product claims, see the Interim Examination Instructions for Evaluating Subject Matter Eligibility Under 35 U.S.C. § 101 issued August 24, 2009. If yes, proceed to Inquiry 2.
- 2. Does the claim focus on use of a law of nature, a natural phenomenon, or naturally occurring relation or correlation (collectively referred to as a natural principle herein)? (Is the natural principle a limiting feature of the claim?)**
 - a. If no, this analysis is complete, and the claim should be analyzed to determine if an abstract idea is claimed (see the 2010 Interim *Bilski* Guidance). If yes, proceed to Inquiry 3.

3. Does the claim include additional elements/steps or a combination of elements/steps that integrate the natural principle into the claimed invention such that the natural principle is practically applied, and are sufficient to ensure that the claim amounts to significantly more than the natural principle itself? (Is it more than a law of nature + the general instruction to simply “apply it”?)
 - a. If no, the claim is not patent-eligible and should be rejected. If yes, the claim is patent eligible, and the analysis is complete.

OCTANE FITNESS, LLC V. ICON HEALTH & FITNESS, INC., 527 U.S. ___ (2014)

BACKGROUND

Octane Fitness arose against the backdrop of the patent trolling phenomenon, in which non-practicing entities (NPEs, or “trolls”) assert often vaguely-defined patent claims against small businesses and startups for using standard technology. They usually allege that the defendants are infringing the patent at issue and owe licensing fees, which most defendants simply pay to make the troll go away and avoid the even greater cost of litigation. Since the general rule in the US (the "American Rule") is that each party pays its own attorney's fees, a prevailing defendant could still be out a substantial amount of money in attorney's fees if the case were to head to litigation; compare this to the "English Rule," wherein the loser pays the winner's attorney's fees. Section 285 of the Patent Act does allow a court to award reasonable attorney's fees to the prevailing party in certain exceptional cases. In *Brooks Furniture Mfg., Inc. v. Dutailier Int'l., Inc.* 393 F.3d 1378 (Fed. Cir. 2005), the Federal Circuit held that a case is "exceptional" under § 285 when (1) there has been some material inappropriate conduct of independently sanctionable magnitude, or (2) the litigation is brought in subjective bad faith and is objectively baseless. This is to be shown by clear and convincing evidence.

FACTS AND PROCEDURAL HISTORY

Icon Health and Fitness, Inc. sued Octane Fitness, LLC, alleging that Octane had infringed Icon's patent on an elliptical machine. The District Court granted summary judgment in favor of Octane on the infringement issue, and Octane then moved for attorney's fees under § 285. The District Court denied the motion, finding Icon's claims to be neither objectively baseless nor brought in subjective bad faith. The Federal Circuit affirmed the District Court's opinion on the issue. Octane appealed to the Supreme Court,

the issue being whether the *Brooks Furniture* framework that the Federal Circuit applied was consistent with the statutory text of § 285.

ANALYSIS

The Court held that the *Brooks Furniture* framework requiring clear and convincing evidence is unduly rigid and impermissibly encumbers the statutory grant of discretion to district courts. Since § 285 was codified in 1952, courts had awarded attorney's fees using a discretionary totality of the circumstances test; it wasn't until 2005 that the Federal Circuit added the more restrictive framework in *Brooks Furniture*. The only constraint of § 285 is that the power to award attorney's fees is reserved for exceptional cases, and the word "exceptional" is to be given its plain and ordinary meaning. Thus, *Brooks Furniture* superimposes an inflexible framework onto a statutory text that is inherently flexible. An exceptional case is simply one that 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. District courts are to determine whether a case is exceptional on a case-by-case basis using their discretion, which is to be based on the totality of the circumstances and shown by a preponderance of the evidence.

IMPLICATIONS

Octane Fitness replaces a strict test with a significantly more flexible test, and also lowers the burden of proof to pass it from clear and convincing evidence to a preponderance of the evidence. This gives defendants more flexibility in demonstrating that their case "stands out" from others. Placing the determination of exceptionality in the discretion of the courts has the potential to lead to wildly differing results from court to court. This, in turn, may result in increased forum shopping. Some observers have posited that this more relaxed attitude toward granting attorney's fees will have a deterrent effect on frivolous patent litigation, and that it can be seen as a form of patent reform designed to discourage patent trolling. Like *Teva Pharmaceuticals USA, Inc. v. Sandoz, Inc.*, 135 S.Ct. 831

(2015), *Octane Fitness* is seen as a win for district courts because it grants them significantly more latitude to make determinations about which cases are exceptional and which are not.

ALICE CORPORATION PTY. LTD. V. CLS BANK INTERNATIONAL, ET AL., 573 U.S. ___ (2014)

BACKGROUND

Alice concerns software patents, specifically software for business methods patents, which have been the subject of scholarly debate and judicial confusion for decades. Section 101 of the Patent Act defines patentable subject matter as "any new and useful process, machine, manufacture, or composition of matter." This necessarily excludes abstract ideas, laws of nature, and natural phenomena. Software is unique in that it sits at the intersection of mathematical algorithms (generally considered to be unpatentable abstract ideas), and the process of manipulating a machine to achieve a result, which is generally patentable under § 101. Before *Alice*, the most common legal test to determine whether a particular software program was patentable was the "machine-or-transformation" test that was the subject of *Bilski v. Kappos*, 561 U.S. ___ (2010). The machine-or-transformation test holds that a claim to a process qualifies as patentable if (1) it is implemented by a particular machine in a non-conventional and non-trivial manner, or (2) transforms an article from one state to another. In *Bilski*, the Court found that this test is not the sole test of patent eligibility, but merely a useful clue, which left little guidance as to how to handle software claims.

FACTS AND PROCEDURAL POSTURE

DISTRICT COURT DECISION

Alice Corporation held four patents on electronic methods and computer programs for financial trading, in which the settlement risk was reduced by exchanging payment through a third party. In simple terms, this is an escrow system. They claimed:

- (1) The foregoing method for exchanging obligations (the method claims)
- (2) A computer system configured to carry out the method for exchanging obligations (the system claims), and
- (3) A computer-readable medium containing program code for performing the method of exchanging obligations (the media claims)

CLS Bank began to use similar technology, to which Alice responded by notifying CLS that it likely was infringing its patents. CLS Bank sued in District Court and obtained a judgment that Alice's patents were invalid. The District Court held that using an intermediary to facilitate a financial transaction is a basic abstract idea that has been around for thousands of years, and that merely implementing it on a computer was not enough to pass the machine-or-transformation test. Further, allowing a patent on the idea of risk-hedging would essentially preempt the use of escrow systems everywhere and grant a monopoly on an abstract idea.

FEDERAL CIRCUIT APPEAL

The en banc panel of the Federal Circuit was fractured, with no opinion supported by a majority. A five-member plurality of the Court articulated a test by focusing on first identifying the abstract idea or fundamental concept applied by the claim and then determining whether the claim would preempt the abstract idea. Citing *Mayo Collaborative Services v. Prometheus Laboratories, Inc.*, 566 U.S. ___ (2012), the Court held that the test involves two steps:

- (1) Identify the abstract idea represented in the claim, and
- (2) Determine whether the balance of the claim adds "significantly more"

The plurality found that Alice's claims drew on the abstract idea of reducing settlement risk by making transactions through a third-party intermediary and that the use of a

computer to do so added nothing of substance to that idea, thus rendering the claims patent-ineligible.

OPINION

The question before the Supreme Court on appeal was whether claims to computer-implemented inventions—including claims to systems, machines, processes, and items of manufacture—are patent-eligible within the meaning of § 101. The Court held that they are not; intermediated settlement is an abstract idea and merely requiring generic computer implementation fails to transform the abstract idea into a patent-eligible invention. The key to applying the § 101 exclusionary rule for abstract ideas, laws of nature, and natural phenomena is to distinguish the building blocks of human ingenuity from ideas that integrate the building blocks into something significantly more. Like the Federal Circuit, the Court cited *Mayo* in elaborating the proper test to use when dealing with claims directed at abstract ideas:

- (1) Determine whether the claims at issue are directed to a patent-ineligible concept, and
- (2) If yes, search for an "inventive step"—an element or combination of elements sufficient to ensure that the patent, in practice, amounts to significantly more than the ineligible concept itself.

Applying the first prong of the test, the Court found that using a third party intermediary to reduce settlement risk is an abstract idea because it is a building block of the modern economy and its use has been long prevalent. Proceeding to the second prong of the test, the Court found that merely implementing this idea on a general purpose computer was not a sufficiently inventive step to transform the abstract idea into something significantly more. This is because basic computer implementation is not "new and useful" within the meaning of § 101, and adds nothing to the industry. To illustrate this idea, the Court distinguished *Diamond v. Diehr*, 450 U.S. 175 (1981), in which the claimed invention used

a thermocouple to record temperature measurements inside rubber molds—something that was novel in the industry. These measurements were then fed into a computer to recalculate the remaining rubber cure time using a mathematical formula. The Court found that this computer-implemented process was patentable because it improved upon a technological process, not because it was implemented on a computer. Thus, the Court affirmed the Federal Circuit in its holding that Alice's patents claimed ineligible subject matter.

IMPLICATIONS

Besides prompting an explosion of bad *Alice in Wonderland* puns in the patent law blogosphere, *Alice* significantly changed the landscape for software patents. Early on, some even referred to it as a "death warrant" or feared that it would create "total chaos." It is true that *Alice* makes it significantly more difficult to obtain a patent on software. Section 101 rejections have become much more common, and the USPTO even pulled notices of allowance that issued before *Alice* in the decision's immediate aftermath.

However, not everyone agrees that *Alice* is categorically toxic to software patents. Martin Goetz argues that *Alice* is fatal only to software patents that were abstract, obvious, and lacked an inventive step, and that the decision will lead to higher quality patents that will be granted only to inventors who use a computer to actually innovate.

Alice has also led to a decline in the number of business method patents issued, as lower courts have found its framework useful to the evaluation of all patents that touch on abstract ideas. One possibly unintended effect was that the *Alice* decision preceded a noticeable decline in the number of patent infringement lawsuits filed in the U.S., as it led to the killing of over 100 software patents held by Non-Practicing Entities (NPEs or "trolls"). Thus, some consider *Alice* to be just one piece in the larger patent reform effort to fight patent trolls, since Alice Corporation itself was an NPE.

MCRO, INC., D.B.A. PLANET BLUE V. ACTIVISION PUBLISHING, INC., ET AL., No. CV
14-336-GW(FFMx) (C.D. Cal. Sept. 22, 2014)

FACTS AND PROCEDURAL HISTORY

Planet Blue was the assignee of several patents that claimed a process for automatically animating the lip synchronization and facial expressions of 3D animated characters. When animated characters speak, the shape of their mouths needs to match the sounds coming out of them. This was previously done by manual techniques using a "morph target" approach; a morph target is a model of the mouth in non-neutral positions corresponding to specific phonemes, the smallest units of speech. The old way was laborious and uneconomical, and Planet Blue's patents disclosed a method of doing this automatically using a set of rules on a computer. Planet Blue sued several defendants, including Disney, Sega, Electronic Arts, and Sony of patent infringement in the U.S. District Court for the Central District of California. Defendants filed a Motion for Judgment on the Pleadings based on unpatentability under 35 U.S.C. § 101, alleging that Planet Blue's patents are directed to the abstract idea of rules-based synchronization of animated mouth movement.

OPINION

As with all allegations of unpatentability under §101, the court applied the *Alice* test to the patents in suit. Under *Alice*, the court must first determine whether the claims are directed to unpatentable subject matter (abstract ideas, laws of nature, and natural phenomena). If the court finds that they are, it must then search for an "inventive step" that adds significantly more to the unpatentable subject matter.

Starting with the first step of *Alice*, the court found that these claims do not appear to be directed to an abstract idea. Rather, they are tangible, each covering an approach to

automated 3D computer animation as a specific technological process. Further, they do not cover any prior art methods of computer-assisted, but non-automated, lip synchronization. Therefore, they do not amount to a monopoly on the idea that the human mouth looks a certain way while speaking particular sounds.

Although the court found that the claims were not directed to an abstract idea, it went ahead and proceeded to the second step of *Alice* anyway. Following *Alice*, the court searched for an inventive step—which it characterized by the requirement that it be (1) a tangible element or step, and (2) new in light of the prior art. Looking back over the prior art in which morph targets were set manually, the court considered that what the claims added was the use of mathematical rules, rather than artists, to accomplish this. However, the specification states that the user must manually set up the default rules that specify the information needed to generate the morph targets, and that many such rules could be specified according to the method of the invention. The court felt that this description was too general and purported to cover all mathematical rules for setting morph targets, and that the claims were merely an instruction to users to apply this abstract idea on a computer. Thus, because the specification claimed the abstract idea of using rules to automate lip synchronization at the point of novelty, the court found that the claims were unpatentable.

IMPLICATIONS

Planet Blue is noteworthy due to its unusual application of *Alice*, which ordinarily involves proceeding to the second step only if the court finds that the claims are directed to unpatentable subject matter in the first step. Here, the court found that the claims were *not* directed to an abstract idea, but moved along to the second step anyway and invalidated them.

Writing for *Patently-O*, Tim Molino argues that the court erred because it reversed the two steps of *Alice*. Instead of first determining whether the claims were directed to an abstract idea, the court began by "seeking to uncover the 'abstract idea' lurking

underneath the claim language by stripping away all elements that were known in the prior art in an attempt to discover the claims' 'point of novelty.'" This approach, he argues, lacks any basis in the case law. John S. Parzych and Krithiga Ganesan at [Lexology](#) argue that *Planet Blue* teaches applicants to be careful not to describe their points of novelty too broadly when drafting method claims, and could even lead to applicants purposefully failing to candidly describe prior art if it is affirmed on appeal.

The Federal Circuit heard oral arguments in this case on December 11, 2015 and will have to decide if this was a correct application of *Alice* on appeal.

ULTRAMERCIAL, INC. V. HULU, LLC, 772 F.3d 709, No. 2010-1544 (Fed. Cir. Nov. 14, 2014)

FACTS AND PROCEDURAL HISTORY

Ultramercial involves a long up-and-down procedural history, having been heard three times by the Federal Circuit and twice in the Supreme Court.

Ultramercial owned a patent on distributing copyrighted material over the internet, where a user views the copyrighted material at no cost in exchange for viewing an advertisement. The claims consisted broadly of the steps of (1) receiving copyrighted media, (2) selecting an ad, (3) offering the media in exchange for watching the selected ad, (4) displaying the ad, (5) allowing the consumer access to the media, and (6) receiving payment from the sponsor of the ad. Ultramercial sued Hulu, YouTube, and WildTangent, alleging infringement. Hulu and YouTube were dismissed from the case, and WildTangent subsequently moved to dismiss for failure to state a claim under Fed. R. Civ. P. 12(b)(6) on the basis that the patent did not claim patent-eligible subject matter under 35 U.S.C. § 101.

The District Court granted WildTangent's motion to dismiss, which Ultramercial appealed to the Federal Circuit. The Federal Circuit reversed, finding that the claims were patent-eligible, to which WildTangent responded by filing a writ of certiorari to the Supreme Court. The Supreme Court reversed and vacated, remanding the case back to the Federal Circuit for further consideration in light of its then-recent decision in *Mayo Collaborative Services v. Prometheus Laboratories*, 566 U.S. ___ (2012).

On remand, the Federal Circuit reversed a second time, again concluding that the District Court had erred in granting WildTangent's motion to dismiss and finding the claims patent-eligible. WildTangent then filed a second petition for a writ of certiorari. While this petition was pending, the Supreme Court decided *Alice Corporation Pty. Ltd. v. CLS Bank*

International. The Court granted WildTangent's petition, vacated the Federal Circuit's decision again, and remanded the case for further consideration in light of *Alice*.

On remand, Ultramercial argued that, unlike the escrow arrangement that was the subject of *Alice*, its claims are directed to a specific method of advertising and content distribution that was previously unknown and had never before been used on the internet. Further, Ultramercial's style of advertising extends beyond basic computer implementation because the system requires users to select an advertisement, making it less passive than traditional advertising (e.g., asking users "which ad experience would you prefer?"). In basic terms, Ultramercial argued that the court should implement a § 102 novelty analysis to abstract ideas, asserting that abstract ideas are patentable so long as they are novel. WildTangent argued that offering free media in exchange for watching ads is an abstract idea, regardless of how many novel additions are added to it. Further, implementing that idea on a computer does not add an inventive step sufficient to overcome *Alice*.

OPINION

The Federal Circuit agreed with WildTangent. In light of the Supreme Court's then-recent decision in *Alice*, the court applied the *Alice* test to the claims, which requires courts to (1) determine whether the claims at issue are directed to a patent-ineligible concept, and (2) if so, search for an "inventive step"—an element or combination of elements sufficient to ensure that the patent, in practice, amounts to significantly more than the ineligible concept itself.

Starting with the first prong of the *Alice* test, the court found that the ordered combination of steps in the patent recite the abstract idea of internet advertising broken down into constituent parts; the addition of novel or non-routine components to the claimed idea does not turn the abstraction into something concrete. Moving to the second prong, the court found that there was no inventive step in the claims because they merely instruct the practitioner to implement the abstract idea with routine, conventional activity, and are specified at a high level of generality. The fact that some of the steps in

the claims were not previously employed in this field is not enough to confer patent eligibility on them, as they are abstract ideas nonetheless.

The court then proceeded to apply the machine-or-transformation test of *Bilski*, in which a claimed process can be found patent-eligible under § 101 if (1) it is tied to a particular machine or apparatus, or (2) it transforms a particular article into a different state or thing. First, the court found that the claims of Ultramercial's patent are not tied to a particular machine or apparatus, but only to a general purpose computer. The internet also does not satisfy this requirement, since it is a ubiquitous information-transmitting medium, not a novel machine. Second, the court found that the claims do not transform any article to a different state or thing because the manipulations of legal obligations, relationships, and business risks are not physical objects or representations of physical objects.

Thus, the Federal Circuit affirmed the District Court's original ruling granting WildTangent's 12(b)(6) motion to dismiss for lack of patent-eligible subject matter.

IMPLICATIONS

Ultramercial establishes that even novelty in the conception of abstract ideas will not save them from *Alice*. It is also a clear case of the power of *Alice*; the Federal Circuit had twice found the patent claims at issue valid, and did not find them patent-ineligible until the Supreme Court handed down the *Alice* framework, indicating that the *Alice* test likely was the dispositive factor in the court's sudden about-face.

This power is disconcerting to some. Gene Quinn of IPWatchdog argues that in the Supreme Court's haste to purify the software patent landscape from vague and abstract patents, it forgot to define what an "abstract idea" actually is, leading lower courts to frequently invalidate software claims when a closer technological inspection might reveal that they are not as abstract as the courts suggest.

Others feel that *Ultramercial* establishes that Rule 12(b)(6) motions can be used as a “guillotine for patent trolls,” since WildTangent used one successfully to argue lack of patentable subject matter as a threshold issue. The use of this technique as a shortcut to beating patent trolls likely will become much more common.

In May of 2015, Ultramercial filed its own petition for a writ of certiorari to the Supreme Court, asking it to consider the Federal Circuit's most recent finding of patent ineligibility and clarify its own ruling in *Alice*. The Supreme Court denied cert.

DDR HOLDINGS, LLC V. HOTELS.COM, LP, ET AL., 773 F.3d 1245 (Fed. Cir. 2014)

FACTS AND PROCEDURAL POSTURE

DDR was the assignee of several patents for generating a composite website from a host and a third-party merchant. The system allowed a user to click on an ad on the host website (such as Facebook), and instead of being redirected to the merchant's own website, the user is taken to a page that combines the look and feel of the host website and the product information from the merchant. This allows a user to essentially be in two places at one time, and prevents web traffic from being redirected away from the host's website while a user completes a transaction.

DDR filed infringement actions against NLG, Digital River, and several other defendants. NLG was an online travel agent that provided a system for cruise-oriented websites (hosts) that allowed visitors to book cruises on major cruise lines (merchants) using a composite web page system. During *Markman* hearings, the parties agreed to the following constructions:

- "Look and feel": A set of elements related to visual appearance and user interface conveying an overall appearance identifying a website; such elements include logos, colors, page layout, navigation systems, frames, "mouse-over" effects, or other elements consistent through some or all of the website
- "Visually perceptible elements": Look and feel elements that can be seen

DDR eventually settled with all of the defendants except NLG and Digital River. At trial, the jury found that NLG and Digital River had infringed several claims of DDR's patents. On renewed motions for judgment as a matter of law (JMOL), NLG argued that the claims at issue are directed to patent-ineligible subject matter under 35 U.S.C. § 101 and the terms "look and feel" and "visually perceptible elements" are indefinite under § 112.

Digital River argued that the claims are either anticipated under § 102, obvious under §103, or indefinite under §112. The District Court denied all motions for JMOL. NLG and Digital River appealed and the appeals were consolidated. DDR and Digital River eventually settled, with only NLG's appeal continuing. This brief concerns only the § 101 subject matter analysis.

OPINION

Because JMOL motions are not patent-law specific, the Federal Circuit applies regional circuit law, which in this case was the Fifth Circuit. The Fifth Circuit reviews JMOL motions *de novo*, finding JMOL appropriate where the facts and inferences point so strongly and overwhelmingly in favor of one party that the court concludes that reasonable jurors could not arrive at a contrary verdict. As with all claims that are challenged under § 101, the Court reviewed the question of subject matter eligibility using the *Alice* framework.

The court felt that it is clear after *Alice* that the recitation of generic computer limitations are directed to patent-ineligible subject matter. For example, in *Alice* the claims simply instructed the practitioner to implement the abstract idea of intermediated settlement on a generic computer. Similarly, in *Ultramercial*, the claims merely recited the abstract idea of using advertising as a currency as applied over the internet. The claims here, however, are not so generic. They can be articulated as "making two web pages look the same," "syndicated commerce on the computer using the internet," or "an online merchant's sales can be increased if two web pages have the same look and feel."

These claims do not merely recite the performance of a business practice known from the pre-internet world along with the requirement to perform it on the internet; they are necessarily rooted in computer technology in order to overcome a problem specifically arising in the realm of computer networks. Although *Ultramercial*'s claims were also internet-specific, they broadly and generically claimed "the use of the internet" to perform an abstract business practice, which is not the case here. These claims specify

how interactions with the internet are manipulated to yield a desired result, creating a hybrid website that combines the look and feel of the host with the products of the merchant. This is a new and unconventional use of the internet, which normally would simply take someone who clicks on an ad to the ad owner's website. Thus, the court found that these claims had inventive steps beyond those of *Alice* and *Ultramercial* and were patent-eligible.

IMPLICATIONS

DDR Holdings is notable in recent patent jurisprudence because it was the first post-*Alice* case at the Federal Circuit level to uphold a software patent against a § 101 challenge. Wilson Elser of Lexology feels that the case offers hope for software patentees and a clue as to how to get around *Alice*: broadly claiming the use of the internet or a computer to perform a business practice is patent ineligible, but claims that are necessarily rooted in computer technology and overcome problems inherent in computer technology may meet the "significantly more" standard of *Alice*. Others are not so optimistic. Gene Quinn of IPWatchdog finds the differences between *DDR Holdings* and *Ultramercial* to be thin and the court's attempt to distinguish them to be weak. Dennis Crouch of Patently-O agrees, and suspects that this decision will not survive Supreme Court review due to its tension with *Ultramercial*.

TEVA PHARMACEUTICALS USA, INC. V. SANDOZ, INC., 574 U.S. ___ (2015)

FACTS AND PROCEDURAL HISTORY

Plaintiff Teva Pharmaceuticals owned a patent for a manufacturing method of a drug for multiple sclerosis. When Defendant Sandoz tried to market a generic version of the drug, Teva sued. Sandoz argued that the patent was invalid. The main issue at trial was the phrase “a molecular weight of 5 to 9 kilodaltons.” Sandoz argued that this term was indefinite because the patent did not state which of the three methods of molecular weight calculation was used to arrive at that number. Considering expert testimony, the District Court found that, in context, a person skilled in the art would understand the term “molecular weight” would refer to the weight of the most prevalent molecule. The Federal Circuit reversed and found the term indefinite, reviewing all aspects of the District Court’s analysis *de novo*, including the underlying factual determination based on expert testimony.

OPINION

The issue for the Supreme Court was whether this unusual usage of *de novo* review was proper. The Court found that it was not, holding that the Federal Circuit must apply the clear error standard of review to a district court’s resolution of subsidiary factual matters in claim construction. The Supreme Court in *Markman v. Westview Instruments, Inc.*, 517 U.S. 370 (1996), placed claim construction in the hands of the court, but did not create an exception to Fed. R. Civ. P. 52(a)(6). This is because the construction of patent claims is no different from the construction of deeds, contracts, and other written instruments, which is a question of law when the construction involves words used in their ordinary meaning. However, when an instrument uses technical words that are not commonly understood, extrinsic evidence may help to establish a usage of trade, course of dealing, et cetera. This

extrinsic evidence, often provided by expert testimony or technical dictionaries, is a question of fact.

Thus, when a district court interprets a term using evidence intrinsic to the patent, the judge's determination is a question of law and may be reviewed *de novo* on appeal. When a district court needs to consult extrinsic evidence to make a subsidiary factual finding in order to construe a term, that construction is a question of fact and may be reversed only if it is clearly erroneous. While the ultimate construction of patent claims remains a question of law, any underlying extrinsic fact-finding is a question of fact.

IMPLICATIONS

Teva has been described as a "minor sea change" that is unlikely to have a radical effect on patent litigation. *Teva* is principally a rebuke of Federal Circuit exceptionalism, standing for the principle that claim construction should look like the construction of any other legal document. This is part of the Supreme Court's larger trend of harmonizing the Federal Circuit's practices with those of other federal appellate courts. On a more practical note, *Teva* likely will result in lower district court reversal rates, since it places a stricter standard of review on district court judgments. This, in turn, encourages parties to introduce more extrinsic evidence in litigation in an attempt to maximize the amount of deference to their position if it is accepted by the district court. Like *Octane Fitness, LLC v. Icon Health & Fitness, Inc.*, 527 U.S. ___ (2014), the decision is seen as a win for district courts, which will now have more power over claim construction.

APPLE, INC. V. SAMSUNG ELECTRONICS CO., LTD., Nos. 2014-1335, 2015-1029 (Fed. Cir. May 18, 2015)

FACTS AND PROCEDURAL HISTORY

DISTRICT COURT

Apple accused Samsung of infringing several of its utility and design patents and trademarks covering the iPhone and iPad's bounce-back effect, tap-to-zoom feature, on-screen navigation, rounded corners, tapered edges, and the ornamental design of the home button. In turn, Samsung counterclaimed against Apple, alleging that it was infringing several of its own patents. The jury found that Samsung willfully infringed Apple's patents, failed to prove that any of them were invalid, and had diluted Apple's trade dresses (see below) related to the iPhone. The jury also found that Apple had not infringed any of Samsung's patents, but had failed to prove that any of them were invalid. Apple then filed a motion for an injunction to stop all sales of Samsung's products that were in violation of its patents, which was denied. As for damages, the jury originally awarded \$1.05 billion. The judge cut \$450 million out of this and ordered a new trial to recalculate. The jury in the retrial awarded an additional \$290 million, bringing the total amount of damages to \$930 million.

FEDERAL CIRCUIT APPEAL

The major issue on appeal was *trade dress*—the characteristics of a product that signify the source of the product and make it unique. In this case, it was the iPhone's distinctive shape, which Apple alleged that Samsung had copied in its Galaxy line of phones, thereby diluting the strength of the Apple brand. However, trade dress cannot be asserted for designs that are also functional; thus, the question was whether the look of the iPhone is

purely ornamental or if there is also a functional component to it. To determine this, courts consider whether:

- (1) The design yields a utilitarian advantage
- (2) Alternative designs are available
- (3) Advertising touts the utilitarian advantages of the design, and
- (4) The particular design results from a comparatively simple or inexpensive method of manufacture

Apple claimed the following characteristics of the iPhone as unregistered trade dress:

- (1) A rectangular product with evenly rounded corners
- (2) A flat, clear surface covering the front of the product
- (3) A display screen under the clear surface
- (4) Substantial black borders above and below the display screen and narrower back borders on either side of the screen
- (5) When the device is on, a row of small dots on the display screen, a matrix of colorful square icons with evenly rounded corners, and an unchanging bottom dock of colorful square icons with evenly rounded corners set off from the display screen's other icons

The Federal Circuit upheld the District Court's findings as to infringement of all of Apple's utility and design patents, but reversed on the trade dress claims. The court found that the shape of the iPhone and its display appearance were part of the functionality of the phone, and therefore could not be asserted as trade dress. As an example, the rounded corners of the phone make it easier to get in and out of one's pocket. While Samsung did infringe Apple's non-functional design patents and were liable for damages on those claims, Apple could not also assert trademark damages for the dilution of its trade dresses; thus, Apple's

damages award was reduced by about \$380 million. This is nonetheless considered a win for Apple, however, as it is still entitled to Samsung's entire profits flowing from the infringement of its design patents.

IMPLICATIONS

Of note in *Apple v. Samsung* is that, even though the dispute involves two tech titans, the main issue here is not the technology inside the phones, but the way they look and feel. Even though Apple lost on its trade dresses claim, Jason Rantanen sees *Apple v. Samsung* as a win for design patents generally, since Apple was awarded the *total profits* from Samsung, not just the profits flowing directly from the infringement. This likely is going to make high damage awards for design patent infringement much more common.

COMMIL USA, LLC V. CISCO SYSTEMS, INC., 575 U.S. ___ (2015)

FACTS AND PROCEDURAL HISTORY

Commil, an NPE, held a patent for implementing short-range wireless networks, the technical details of which are not relevant to this case. Commil sued Cisco, alleging that Cisco had infringed their patent, and also alleging that Cisco had induced others to infringe the patent by selling the infringing equipment. In its defense, Cisco argued that it had a good-faith belief that Commil's patent was invalid and attempted to show evidence of this in the District Court. The District Court ruled that this proffered evidence was inadmissible—ostensibly because it concluded that belief in invalidity was not a defense to inducement. The Federal Circuit reversed the District Court on this issue, stating that it is axiomatic that one cannot infringe an invalid patent, and that good-faith belief in invalidity may negate the intent required for inducement.

OPINION

The issue for the Supreme Court was whether a defendant's belief regarding patent validity is a defense to a claim of induced infringement. The Court held that it is not; the scienter element concerns infringement, which is a different issue than validity. Section 271(a) of the Patent Act concerns direct infringement, and states:

Except as otherwise provided in this title, whoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefore, infringes the patent.

Direct infringement is considered a strict liability offense, rendering the defendant's mental state irrelevant. Section 271(b), by contrast, deals with induced infringement, stating: "Whoever actively induces infringement of a patent shall be liable as an infringer."

In *Global-Tech Appliances, Inc. v. SEB S.A.*, 563 U.S. ___ (2011), the Court held that induced infringement requires both knowledge of the patent and knowledge that the induced acts constitute infringement of that patent. Here, Commil argued that all that is required is knowledge of the patent, which the Court rejected as inconsistent with *Global-Tech*.

When a defendant is accused of infringement, it has two options. It may proceed by either attacking the validity of the patent or by arguing noninfringement. Invalidity is a defense that can preclude enforcement of a patent against otherwise infringing conduct. Thus, it relieves the defendant of liability only; it is not a defense to infringement. For this reason, a belief as to invalidity cannot negate the scienter required to induce a third person to infringe a patent. In other words, good-faith belief in invalidity is not a defense to induced infringement because validity and infringement are two separate issues under the Patent Act.

IMPLICATIONS

One interesting aspect of the case is that the Court devotes an entire page of the ruling to instructing district courts on how to deal with nuisance and frivolous patent litigation, likely because Commil is widely regarded as a patent troll. This establishes that the Court realizes there is a problem with this kind of litigation, but that belief-in-invalidity defenses are not the proper way to handle it. Instead, the deterrence will have to come from more traditional methods, such as sanctions, § 285 attorney's fees awards, and affirmative invalidity defenses. Dennis Crouch sees *Commil* as a split decision for patentees; on the one hand, it removes belief-in-validity defenses from accused inducers. On the other, the court retains the high burden of proof of *Global-Tech* that requires an alleged inducer to have known that the induced acts would constitute infringement of the patent at issue, and not merely knowledge of the patent itself.

ENFISH LLC V. MICROSOFT CORPORATION, ET AL. No. 2015-1244 (Fed. Cir. May 12, 2016)

FACTS AND PROCEDURAL HISTORY

Enfish, LLC sued Microsoft Corporation for infringement of two patents on “self-referential” databases. Enfish alleged that Microsoft’s “ADO.NET” product created and manipulated self-referential tables as part of its operation. Enfish filed suit against Microsoft in District Court in California in 2012 alleging infringement. The District Court determined on summary judgment that all the allegedly infringed claims were invalid under § 101, some claims were invalid as anticipated under § 102, and one claim not infringed. The Federal Circuit reversed the grant of summary judgment in part, remanding to the District Court after vacating the District Court’s determinations under §§ 101 and 102.

OPINION

Reviewing the District Court’s ruling *de novo*, the Federal Circuit first noted that the Supreme Court “has not established a definitive rule to determine what constitutes an ‘abstract idea’ sufficient to satisfy the first step of the *Mayo/Alice* inquiry.” In performing this first step of the *Alice* test, the Federal Circuit noted that even the Supreme Court suggested that claims improving the functionality of a computer might not be directed toward abstract ideas.

Microsoft argued that the claims were directed to the abstract idea of “storing, organizing, and retrieving memory in a logical table.” However, the Federal Circuit held that the claims were not directed at *any* method of storing data, but rather a *specific* method of doing so that achieves benefits over traditional databases (e.g. faster search times, increased flexibility, smaller memory requirements).

Just as hardware can improve the functionality of a computer, so can software. In this case, the Federal Circuit found that the claims at issue were “directed to a specific improvement to the way computers operate, embodied in the self-referential table” and, therefore, were directed to patentable subject matter.

IMPLICATIONS

Notably, this is the first decision since *DDR Holdings* to find a software patent valid in light of *Alice*. Even more importantly, this is the only case to hold that the software patent at issue was not directed toward unpatentable subject matter, meaning the court did not have to proceed past the first step of the *Alice* test.

While some have seen *Enfish* as a boon for software patents, others like Scott Zimmerman believe that the *Enfish* decision’s heavy reliance on the claims’ express description of the benefits of the invention over conventional prior art may render it less of a shift in software patent jurisprudence than initially thought.

Given the specificity with which the Federal Circuit relied on the claims’ description of its benefits over prior art, it may be a useful strategy to specifically focus on a software invention’s benefits in order to avail oneself of the benefits of the Federal Circuit’s decision and the USPTO’s subsequent guidance.

TLI COMMUNICATIONS, LLC V. AV AUTOMOTIVE, LLC, ET AL., No. 13-896 (S.Ct. May 26, 2015)

FACTS AND PROCEDURAL HISTORY

TLI Communications was the owner of a patent relating to a method and system for taking, transmitting, and organizing digital images. It filed a series of actions in both Delaware and Virginia alleging infringement against multiple defendants including Yahoo!, Twitter, Facebook, Google, and Instagram. The cases were consolidated for pre-trial purposes in the Eastern District of Virginia.

The Defendants filed a Motion to Dismiss arguing that the patent was drawn to patent-ineligible subject matter. The Eastern District of Virginia agreed with the Defendants, finding that the claims are directed to “the abstract idea of taking, organizing, classifying, and storing photographs.” TLI appealed to the Federal Circuit.

OPINION

Applying the *Alice* framework, the Federal Circuit first addressed whether TLI’s patent was drawn to ineligible subject matter. In support of its patent, TLI claimed that its patent was directed to a specific improvement to computer functionality. The Federal Circuit disagreed, finding that TLI’s claims were “directed to the use of conventional or generic technology in a nascent but well-known environment, without any claim that the invention reflects an inventive solution to any problem presented by combining the two.”

Further, the Federal Circuit noted that the specification did not describe a new telephone, new server, or new physical combination of the two. As such, the telephone unit is merely a conduit for the abstract idea of classifying an image and storing the image based on its classification. Thus, the Federal Circuit held that the patent was not directed to patentable subject matter and moved to step two of the *Alice* framework.

The Federal Circuit found that the claims at issue, specifically the references to a “telephone unit,” a “server,” an “image analysis unit,” and a “control unit,” failed to “add an inventive concept sufficient to bring the abstract idea into the realm of patentability.”

With respect to the telephone unit and the server recited in the claims, the court found that these pieces of technology were to be used in their ordinary capacity to carry out the function described by the patent.

With respect to the “image analysis unit” and “control unit,” the court noted that these components were responsible for analyzing image data sent from the telephone unit. However, the court found that these also did not add the necessary inventive step as “the specification limits its discussion of these components to abstract functional descriptions devoid of technical explanation as to how to implement the invention.”

Having found that the claims did not pass muster in light of *Alice*, the Federal Circuit affirmed the District Court’s decision.

IMPLICATIONS

Decided only five days after *Enfish*, some commentators have found the two decisions, both authored by Judge Hughes, to be inconsistent. On the other hand, some have found that the two opinions are actually consistent and the differing results are due to distinctions between the types of claims at issue in each. Michael Bordello notes that “*Enfish* stands for the notion that an improvement to computing technology, whether software or hardware, is not in and of itself abstract. *TLI*, on the other hand, reaffirms that merely using generic computer technology to carry out a procedure does not add patentable weight to a claimed invention.”

The USPTO issued [guidance](#) to its examiners in the wake of *Enfish* and *TLI*. In it, the USPTO instructed examiners that “[t]he fact that a claim is directed to an improvement in

computer-related technology can demonstrate that the claim does not recite a concept similar to previously identified abstract ideas.

HALO ELECTRONICS, INC. V. PULSE ELECTRONICS, INC., et al., No. 14-1513 (S.Ct. June 13, 2016)

FACTS AND PROCEDURAL HISTORY

Halo Electronics, Inc. owns the patents for several types of electronic packages containing transformers designed to be mounted to the surface of circuit boards. In 2002, after offering to license the technology from Halo, Pulse continued selling the allegedly infringing products after concluding that Halo's patents were invalid. In 2007, Halo sued Pulse for patent infringement. The jury concluded that Pulse had infringed on Halo's patents and that there was a high likelihood that it had done so willfully. The District Court, however, declined to award treble damages, as authorized by § 284 of the Patent Act. The District Court so held on the finding that the defense Pulse presented at trial was not "objectively baseless, or a 'sham.'" Thus, the District Court concluded that Halo failed to show the objective recklessness required under the first step of the treble damages analysis articulated by the Federal Circuit in *In re Seagate Technology, LLC*, 497 F. 3d 1360 (Fed. Cir. 2007).

In the consolidated case, Stryker Corporation sued Zimmer, Inc. alleging infringement of patents Stryker held on a device used to clean tissue during surgery. The jury found that Zimmer willfully infringed Stryker's patents. The District Court then awarded Stryker treble damages as allowed under 35 U.S.C. § 284 after finding that Zimmer intentionally violated Stryker's patents. The Federal Circuit vacated the District Court's award of treble damages. Under *de novo* review, the Federal Circuit concluded that Zimmer had proffered "reasonable defenses" at trial.

The Supreme Court granted cert and consolidated the cases to determine the appropriate standard for district courts to apply in awarding treble damages pursuant to § 284.

OPINION

The Court ultimately found that the Federal Circuit’s *Seagate* decision and associated two-part test was inconsistent with the discretion granted to district courts by § 284.

Under *Seagate*, to receive treble damages, the petitioner must 1) “show by clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent” and 2) demonstrate by clear and convincing evidence that the risk of infringement “was either known or so obvious that it should have been known to the accused infringer.”

Likening this case to the issue presented in *Octane Fitness* regarding the district courts’ discretion to award attorney’s fees under § 285, the Court similarly found that the two-part test articulated in *Seagate* was unduly rigid and inconsistent with the discretion granted by § 284. The Court reasoned that requiring a finding of “objective recklessness” allows an infringer, no matter how culpable, to avoid enhanced damages if he can muster a “reasonable (even though unsuccessful) defense” at trial, regardless of whether the infringer actually acted on the basis of that defense. Thus, an infringer can avoid enhanced damages based “solely on the strength of his attorney’s ingenuity.”

Seagate’s requirement for clear and convincing evidence is also at odds with the text of § 284. The Court, again, found its own reasoning in *Octane Fitness* instructive, and held that the text of § 284 does not require imposing a heightened burden of proof. Patent infringement litigation has always been based on a preponderance of the evidence standard and enhanced damages are no exception. Further, the Court held that enhanced damages awards should be reviewed for abuse of discretion, rather than *de novo*.

The Court did note that, while district courts have discretion to award enhanced damages, such awards should not be given out in “garden-variety cases” in the interest of encouraging innovation. Nevertheless, the Court vacated and remanded both cases for further proceedings consistent with its opinion.

IMPLICATIONS

While the Court found that the *Seagate* test was unduly rigid, it did not articulate a specific replacement test for district courts to use in awarding enhanced damages. The Court only specified that treble damages are “to be guided by [the] sound legal principles” developed over nearly two centuries of application of the Patent Act and enhanced damage awards should be given only in “egregious” cases. This wide leeway now available to district courts has the possibility of leading to increased forum shopping.

Many see the decision as easing the way for larger patent infringement damages awards. In particular, patent litigation attorney Brian Pandya calls the case a “major victory” for patent owners. At the same time, Zimmer spokesperson Monica Kendrick stated that the company is “disappointed” and looks forward to continuing its defense on remand to the Federal Circuit.

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