IDEAS ON INTELLECTUAL PROPERTY LAW

PATTERSON THUENTE IP

Patent eligibility for software

Fractured Federal Circuit provides little clarity

The patent eligibility of computer-implemented inventions continues to vex would-be patentees. Many have understandably been befuddled by the sometimes conflicting recent court decisions on the issue. Unfortunately, the 135-page decision from the U.S. Court of Appeals for the Federal Circuit in *CLS Bank Int'l v. Alice Corp. Pty. Ltd.* provides little clarity. In this case, the 10-judge panel produced six opinions as well as conflicting tests for patent eligibility.

The case platform

Alice Corporation owns several patents related to a computerized trading platform. The platform is used for conducting financial transactions in which a third party settles obligations between two other parties to eliminate the risk that only one party will actually fulfill its obligation. The patents include system, method and computer-readable medium claims.

In 2007, CLS Bank sued Alice, seeking a declaratory judgment of the noninfringement, invalidity and unenforceability of Alice's patents. The district court held that the challenged claims were invalid. It found that they all related to the patent-ineligible abstract concept of employing an intermediary to facilitate the simultaneous exchange of obligations to minimize risk. Alice appealed.

"Significantly more" required

Judge Lourie's opinion drew the most support of the opinions in the case. Four judges joined him in finding all three categories of Alice's claims patent-ineligible.

Patent claims, Lourie said, shouldn't be coextensive with a natural law, natural phenomenon or abstract idea. Rather, they must include one or more meaningful limitations that add "significantly more" to the basic principle so the claims cover "significantly less" than the full fundamental concept itself. He explained that a meaningful limitation requires a "genuine human contribution" to the claimed invention — more than contributions that are "merely tangential, routine, well-understood, or conventional."

In the case at hand, the question was whether the claims added significantly more to the abstract idea of third-party intermediation. According to Lourie, they didn't.

Method and system claims

Regarding the method claim, Judge Lourie found that the inclusion of generic computer functionality simply to "lend speed or efficiency to the performance of an otherwise abstract concept" isn't a meaningful limitation. "Unless the claims require a computer to perform operations that are not merely accelerated calculations," the judge wrote, "a computer does not itself confer patent eligibility." Further, he found that the computer-readable medium claims were merely ineligible method claims masquerading as a device.

Lourie similarly concluded that the system claims shouldn't be evaluated differently from the method claims just because they included physical objects such as a processor and memory. To apply a different approach would reward "clever claim drafting."

Nonetheless, Lourie acknowledged that a system claim that builds on the same abstract idea as a patent-ineligible method claim could incorporate sufficient additional limitations to make the idea eligible, as long as the limitations extend beyond those found in a typical computer. Computers that have been adapted to do tasks that were formerly performed by humans, such as third-party intermediation, won't cut it.

More relaxed approach

The opinion of another panelist, Judge Rader, was joined in parts by three other judges. Rader cautioned against lumping method, computer-readable and system claims together, holding that they all relate to a patent-ineligible abstract idea. He also advised a broader approach to eligibility than Lourie.

Rader didn't advise removing the abstract idea itself from consideration and focusing on whether the remaining limitations are meaningful. Instead, he asserted that a court must determine whether the claim, as a whole with all of its limitations, in effect covers a patent-ineligible abstract idea or a patent-eligible application of that idea.

"The relevant inquiry must be whether a claim includes meaningful limitations restricting it to an application, rather than merely an abstract idea," he wrote. Applying this test, Rader concluded that Alice's system claims were patent-eligible, but the method and computer-readable medium claims weren't.

Notably, in contrast to Lourie, Rader opined that, when evaluating computer-implemented claims, the fact that a claim is limited by a tie to a computer is an important indicator of patent eligibility. Claims that tie the otherwise abstract idea to a specific way of doing something with a computer, or a specific computer for doing something, he said, are likely eligible. Claims related to nothing more than the idea of doing that thing on a computer likely aren't.

The bottom line

None of the judges' opinions attracted a majority, so the outcome of this case was ultimately spelled out in a "per curiam" opinion issued under the name of the court, rather than the specific judges. That opinion explained that a majority of the panel held that the method and computer-readable media claims weren't patent-eligible. Because the judges were evenly split on the system claims, the district court's finding of patent ineligibility stood. An appeal is likely. ❍

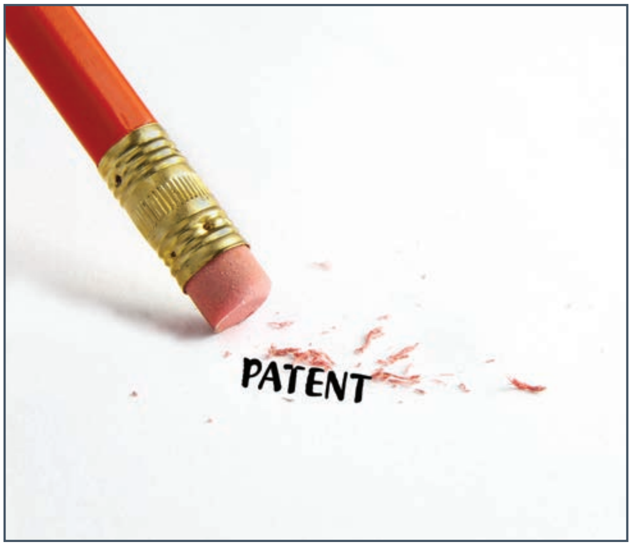
So now what? The echoes of *CLS Bank*

Although none of the opinions in *CLS Bank Int'l v. Alice Corp. Pty. Ltd.* (see main article) are precedential, they do give patentees and potential patentees much to chew on. As Judge Newman noted regarding the judicial deadlock, "The only assurance is that any successful innovation is likely to be challenged in opportunistic litigation, whose result will depend on the random selection on the panel [of judges who hear the case]."

In light of the fact that the Lourie opinion had the most support among the judges — and applied the strictest standards — the wise approach is probably to draft patent claims that are likely to pass muster under his approach. That means including something significantly more than the abstract idea and avoiding drafting strategies that attempt to make abstract ideas patent-eligible.

Should royalties end when a patent expires?

In the recent case *Kimble v. Marvel*, the U.S. Court of Appeals for the Ninth Circuit found itself in an odd spot. The hybrid licensing agreement central to the case forced the court to consider applying a U.S. Supreme Court precedent on patent royalties that the appellate court had previously described as "counterintuitive."



Tangled web

Stephen Kimble invented and patented a Spider-Man toy that enabled users to mimic Spider-Man's web-shooting abilities with a foam string. His patent on the toy expired on or about May 25, 2010.

Back in December 1990, Kimble had met with Marvel to discuss the idea covered by the then-pending application. Marvel passed on it but, according to Kimble, the company verbally agreed to compensate him if it used any of his ideas. Marvel then subsequently released a similar toy called the Web Blaster.

In 1997, Kimble sued Marvel for patent infringement and breach of a verbal contract. The patent claim was dismissed before trial, but a jury ruled in Kimble's favor on the contract claim and awarded him 3.5% of past, present and future net product sales of the Web Blaster.

Kimble appealed the dismissal of the patent claim, and Marvel appealed the contract verdict. Throughout the litigation, Marvel contended that its Web Blaster didn't infringe Kimble's patent.

Unsettled settlement

The parties settled the case in 2001. Under the settlement, Marvel paid more than $500,000 to buy the patent and agreed to pay a 3% royalty on "net product sales," defined as "product sales that would infringe the patent but for the purchase and sale thereof … as well as sales of the Web Blaster product that was the subject of the action and to which the judgment refers." The agreement had no expiration date.

After several disagreements cropped up, Kimble filed a breach of contract action concerning the calculation of royalty payments. Marvel counterclaimed, seeking a declaration that it wasn't obligated to pay Kimble for sales of products after the patent's expiration.

The district court found that the settlement agreement was a hybrid agreement — which encompasses inseparable patent and nonpatent rights — and, therefore, the royalties ended when the patent expired. Kimble appealed.

Bound by *Brulotte*

The Ninth Circuit began its analysis by reviewing an earlier Supreme Court decision known as *Brulotte*. In that case, the High Court ruled that "a patentee's use of a royalty agreement that projects beyond the expiration date of the patent is unlawful per se." Kimble argued, however, that *Brulotte* didn't apply to his case because the settlement agreement distinguished between patent and nonpatent rights.

The Ninth Circuit, however, found that the agreement clearly involved a single royalty rate for both patent and Web Blaster rights. The rights were intertwined in the agreement because, at that time, it was unclear whether Web Blaster sales infringed the patent, violated the verbal agreement or both. Moreover, the settlement didn't include a reduced royalty rate for nonpatent rights.

A hybrid licensing agreement may be enforceable if it provides a reduced rate for nonpatent rights or another clear indication that the royalty was in no way negotiated with the leverage of a patent.

The court acknowledged that Kimble might have been able to obtain a higher royalty rate if the parties had understood that royalties would cease on patent expiration. Nonetheless, it was bound by *Brulotte* and, therefore, held that a hybrid licensing agreement is unenforceable beyond the expiration date of the underlying patent. An agreement may be enforceable if it provides a reduced rate for the nonpatent rights or some other clear indication that the royalty was in no way negotiated with the leverage of a patent.

Careful drafting

The Ninth Circuit's ruling demonstrates the importance of carefully drafting royalty provisions. Oversimplifying the payment structure could leave an agreement vulnerable to the *Brulotte* rule — especially if the agreement involves both patent and nonpatent rights. ❍

Oprah's next chapter

Court allows trademark infringement case to continue

It's well known that Oprah Winfrey loves to read. But she probably didn't enjoy reading a recent opinion issued by the U.S. Court of Appeals for the Second Circuit. The court's decision in *Kelly-Brown v. Winfrey* revived a case that a district court had previously dismissed.

Dueling slogans

Simone Kelly-Brown owns a motivational services business, Own Your Power Communications, Inc., that holds events and releases publications under the federally registered service mark "Own Your Power." Around the same time that Kelly-Brown sought to register her mark, Oprah and various other defendants sought to register a trademark for a new Oprah venture, the Oprah Winfrey Network, to be known as OWN.

The defendants subsequently produced a magazine, an event and a website that used the phrase "Own Your Power." Kelly-Brown sued for trademark infringement.

After the district court dismissed her case before trial, finding fair use by the defendants, she appealed.

Fair use defense

As the Second Circuit noted, the defense of fair use requires proof that the use was made:

1. Other than as a mark,

2. In a descriptive sense, and

3. In good faith.

In determining whether the defendants were using the phrase "Own Your Power" as a mark, the court asked whether they were using it "as a symbol to attract attention." It held that the defendants' "array of uses" of the phrase was sufficient to infer a pattern of use. The court concluded that Kelly-Brown had plausibly alleged that Oprah was attempting to build a new segment of her media empire around the phrase, beginning with the use in the magazine.

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The court emphasized the role of repetition, which "forges an association in the minds of consumers between a marketing device and a product." It found that Kelly-Brown adequately alleged in her complaint that the defendants were trying to create an association between Oprah and the phrase through repetition across various forms of media and, therefore, using it as a mark.

The Second Circuit also found that the defendants' use of the phrase wasn't descriptive. Among other things, it pointed out that "Own Your Power" didn't describe the contents of the magazine issue in question.

The third element

As to the third element — "in good faith" — the court conceded that it has found good faith previously where a defendant prominently displayed its own marks in a way that overshadows the plaintiff's mark. The Second Circuit reasoned that such placement demonstrates that the defendant didn't intend to trade on the plaintiff's goodwill. But a plaintiff can show the absence of good faith where the defendant had knowledge of the mark and chose to adopt a similar mark.

Kelly-Brown plausibly alleged that the defendants would have learned of her mark while registering OWN. Therefore, they failed to conclusively prove good faith in their use of the phrase.

Instructive insight

Having concluded that the defendants had failed to establish a fair use defense, the Second Circuit vacated the district court's judgment and remanded the case for further proceedings. For other trademark owners, *Kelly-Brown* provides some instructive insight into what may or may not be considered fair use. ❍

Dodging patent infringement liability in good faith

In what could be a tough break for patent holders, the U.S. Court of Appeals for the Federal Circuit has given parties accused of induced patent infringement another way of defending themselves. They may now be able to escape liability by showing a good-faith belief that the patent was invalid — even if the patent was, in fact, valid. The case in point: *Commil USA, LLC v. Cisco Systems, Inc.*

Points and controllers

Commil USA holds a patent related to a method of providing faster and more reliable handoffs of mobile devices from one base station to another as a device moves through a wireless network area. Cisco Systems is a major supplier of Wi-Fi access points and controllers.

Commil sued Cisco, alleging that certain access points and controllers infringed its patent. A jury found Cisco liable for induced infringement and awarded Commil about $64 million in damages. Cisco appealed.

Can hardly be said

Cisco contended that it should have been permitted to present evidence of its good-faith belief of the invalidity of Commil's patent to the jury. The Federal Circuit agreed.

As the court noted, it had previously held that a good-faith belief of noninfringement is relevant evidence that tends to show that an accused inducer lacked the requisite intent to be liable for induced infringement. The Federal Circuit saw no reason to distinguish between a good-faith belief of invalidity and a good-faith belief of noninfringement.

One could be aware of a patent and induce another to perform the patent's steps while harboring a good-faith belief that the patent isn't valid. Under those circumstances, the court reasoned, "it can hardly be said that the alleged inducer intended to induce infringement."

Erroneous instructions

Cisco also challenged the jury instructions given by the district court, arguing that the instructions were defective because they allowed the jury to find liability if Cisco "should have known" that its actions would induce infringement. Cisco maintained that actual knowledge was required.

The Federal Circuit found that the instructions were erroneous. It therefore vacated the induced infringement verdict, as well as the associated damages award, and remanded for a new trial.

Hold the phone

To be clear, a good-faith belief of invalidity isn't a "get out of jail free" card. The Federal Circuit cautioned that such a belief doesn't preclude a finding of induced infringement. Rather, a belief of invalidity in good faith should be taken into consideration when determining whether a defendant knew that the induced acts constituted infringement. ❍

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An Update on ICANN's New gTLDs

The plan to dramatically expand the number of generic top level domains, or gTLDs will soon become a reality. Today, there are 22 gTLDs—the short string of characters to the right of the "dot" in web addresses, like .com and .net—available to the general public. The initial phase is now complete and the first new publicly available gTLDs are expected to be on the market by the end of 2013 barring any operational and technical problems resulting from the large-scale development of this new Internet real estate. An array of other concerns also remain, like the potential for trademark and brand infringement, confusion among Internet users and the fairness of an application process that required $185,000 just to get a seat at the table.

The Internet Corporation for Assigned Names and Numbers, or ICANN, is the governing body that oversees the public domain name system. Over two years ago, ICANN approved a plan to increase the number of available top-level domains by thousands. This, in turn, will exponentially increase the number of available Internet addresses.

During the initial phase of the expansion, various organizations lined-up to apply for ownership of the new gTLDs at the cost of $185,000 per application. Many applicants were domain name registrars with plans to sell Web addresses with the new suffixes, such as .inc, .food, .wine, or .nyc. Others were large corporations like Apple and Google that applied for gTLDs reflecting their brands.

ICANN established the Trademark Clearinghouse to mitigate issues of brand confusion, though it charges a fee of about $150 per year for each registration. The clearinghouse effectively gives trademark holders the first right of refusal to register any domain name that might infringe on their marks. It also provides secondary defenses, such as automatically notifying registrants that the URL they're buying may infringe a third party trademark. Domain registrars like GoDaddy are enabling customers to "watch" new domain names that they want. These customers can expect to receive automated notifications when particular gTLDs become available for public sale.

It is important to note that the existing Uniform Domain Name Dispute Resolution Policy (UDRP) remains available to protect trademark owners against third party domain name registrations. For new gTLDs, a new Uniform Rapid Suspension (URS) process has also been established. The URS process generally incorporates the same examination standard as the UDRP. It requires trademark owners to meet a higher burden of proof. However, it is much faster and less expensive than the UDRP process.

Trademark owners should take a number of steps as we await the launch of the new gTLDs. First, owners should review their portfolio to determine which trademarks are appropriate for registration in the clearinghouse. Brand owners should review their enforcement strategies and policies to ensure they will apply to the greatly expanded Internet landscape. Companies should also consider registering common-law trademarks to take advantage of the streamlined URS remedies.

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Firm News: Peter Schlueter Joins as Associate Attorney

Patterson Thuente IP is pleased to introduce patent attorney Peter Schlueter. Peter has worked as a patent agent at the firm since 2011. Earning a Ph.D. in molecular, cellular and developmental biology from the University of Michigan, his academic research focused on developmental genetics, molecular and chemical biology, stem cell therapeutics, high-throughput drug screening, cardiovascular and reproductive biology, and disease modeling. Peter will assist the firm's growing roster of biotech clients with patent matters.

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