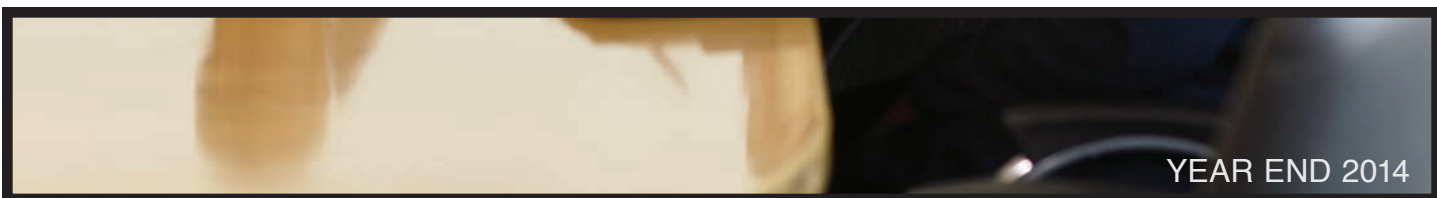




# IDEAS ON INTELLECTUAL PROPERTY LAW



YEAR END 2014

## **Go ask *Alice***

Patentees have a new Supreme Court precedent to consider

**Developing story on the validity of digital-imaging patents**

## **Juicy decision**

FD&C Act doesn't bar Lanham Act claims

**Can an obscure online post constitute prior art?**

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# Go ask Alice

## Patentees have a new Supreme Court precedent to consider

Business method patents have been the subject of much debate and litigation in recent years. In its latest decision in the area, *Alice Corp. Pty. Ltd. v. CLS Bank Int'l*, a unanimous U.S. Supreme Court continued its trend of finding business methods to be patent-ineligible abstract ideas. The Court, however, declined to squarely define “abstract ideas.”

### Seeking a judgment

Alice Corp. owns several patents for mitigating “settlement risk” related to a computerized trading platform 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 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. Alice counterclaimed,

alleging infringement. The district court held that all of the challenged claims were patent ineligible because they were directed to an abstract idea. Alice appealed, and the Federal Circuit affirmed the district court’s holding.

### Settling on the approach

Under Section 101 of the Patent Act, patent protection is available for a new and useful process, machine, manufacture or composition of matter, as well as a new and useful improvement thereof.

The Supreme Court has long recognized exceptions to patent eligibility, including for abstract ideas. In applying the exception, courts must distinguish between patents that cover the “building blocks” of human ingenuity — which are patent ineligible — and those that integrate the building blocks into “something more,” thereby transforming them into a patent-eligible invention.

### USPTO issues post-Alice guidance

Less than a week after the Supreme Court released its ruling in *Alice Corp. Pty. Ltd. v. CLS Bank Int'l* (see main article), the United States Patent and Trademark Office (USPTO) issued a memo to its Patent Examining Corps with preliminary instructions for conducting patent exams in the wake of the ruling.

The instructions address the patent eligibility of claims involving abstract ideas — particularly those that are computer-implemented. The USPTO describes a two-step process for establishing patent eligibility:

- 1. Determine whether the patent claim covers one of the four categories of invention.** These categories are process, machine, manufacture or composition of matter. If it doesn’t cover one of these categories, reject that claim as covering a nonstatutory invention.
- 2. Determine whether the claim is a patent-eligible application of the abstract idea (if the claim does, in fact, fall into one of the four categories).** In other words, does the claim amount to significantly more than the abstract idea alone?

After performing the analysis in Step 2, patent examiners are instructed to determine whether the patent satisfies the other requirements of federal patent law — including utility, novelty and nonobviousness.



To make this distinction, a court must apply the two-part framework described in *Mayo Collaborative Services v. Prometheus Laboratories, Inc.* First, the court determines whether the patent covers an abstract idea. If so, the court then asks, “What else is there in the claims?” To answer this, the court considers whether the patent’s claims include an “inventive concept” that transforms the nature of the claim into a patent-eligible application. To answer the latter question, the court considers the elements of each claim both individually and “as an ordered combination.”

### Writing the abstract

The Supreme Court has previously found the following to be ineligible for patent:

- An algorithm for converting binary-coded decimal numerals into pure binary form (*Gottschalk v. Benson*),
- A mathematical formula for computing “alarm limits” in a catalytic conversion process (*Parker v. Flook*), and
- A method for hedging against the financial risk of price fluctuations (*Bilski v. Kappos*).

Then again, the Court found a process for molding synthetic rubber to be patent eligible in the case of *Diamond v. Diehr*.

In *Alice*, the Supreme Court regarded the concept of intermediated settlement (the use of a third party to mitigate settlement risk), like the risk hedging in *Bilski*, to be “a fundamental economic practice long prevalent in our system of commerce” and a building block of the modern economy. Therefore, intermediated settlement is also a patent-ineligible abstract idea.

Unfortunately, because the Court found no meaningful distinction between the concepts of risk hedging and intermediated settlement, it felt no need to “labor to delimit the precise contours of the ‘abstract ideas’ category in this case.” It did, however, make clear that the category isn’t confined to “preexisting, fundamental truths.”

### Transforming the claims (or not)

The Supreme Court next considered whether the patent claims’ elements transformed the nature of the claims into a patent-eligible application.

Evaluating the method claims, the Court explained that merely appending conventional steps to a method that’s already well known in the relevant art isn’t sufficient to provide the inventive concept needed to make the transformation. The analysis isn’t changed by:

- Introducing a computer into the claims,
- Adding the words “apply it with a computer” to an abstract idea, or
- Limiting the use of an abstract idea to a particular technological environment.

The Court concluded that the method claims here did no more than instruct the user to implement the abstract idea of intermediated settlement on a generic computer. And the function performed at each step — such as creating and maintaining “shadow” accounts and obtaining data — is “purely conventional.” The method claims didn’t, for example, purport to improve the functioning of the computer itself or improve any other technology or technical field.

Because the system and media claims added “nothing of substance” to the underlying abstract idea, the Supreme Court found that they, too, were patent ineligible.

### Reading the tea leaves

Going forward, some believe that business method claims will fail the two-part test — including three of the judges involved in this decision. In their concurring opinion, the justices made it clear that they don’t think business method claims even qualify as patent-eligible processes. ○

# Developing story on the validity of digital-imaging patents

In June of this year, the U.S. Supreme Court issued its decision in *Alice Corp. Pty. Ltd. v. CLS Bank Int'l*. The ruling, in short, found that merely requiring generic computer implementation of a business process doesn't transform that abstract idea into a patent-eligible invention. (See "Go ask Alice" on page two.)

Less than a month later, the U.S. Court of Appeals for the Federal Circuit put *Alice* to work in *Digitech Image Technologies, LLC v. Electronics for Imaging, Inc.*

## Snapshot of the case

Digitech Image Technologies holds a patent related to the generation and use of an "improved device profile" involved in digital image processing. The device reduces the distortion of an image's color and spatial properties. The patent covers both a "device profile" and methods for generating a device profile.

Digitech sued 32 defendants for patent infringement. Several defendants sought to have the case dismissed before trial, arguing that the device profile and method claims at issue were invalid because they were patent-ineligible. The district court agreed, and Digitech appealed.

## Focus on method claims

Under Section 101 of the Patent Act, patent protection is available for a new and useful process, machine, manufacture or composition of matter, as well as a new and useful improvement thereof. Digitech argued that the method claims were

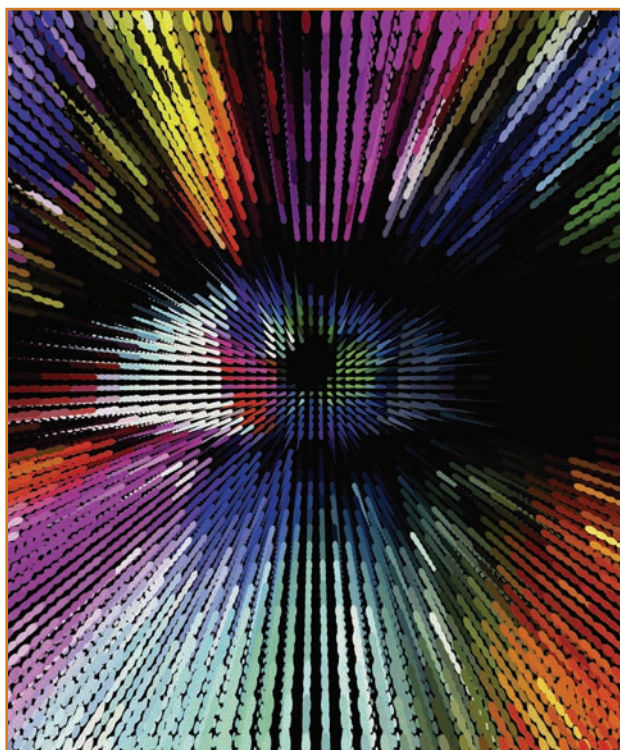
patent-eligible because they described a process for generating a device profile that's specifically tied to a digital image processing system and is integral to the transformation of a digital image.

The Federal Circuit acknowledged that the method claims did describe a process. But, it explained, claims that fit within one of the four patent-eligible categories can nonetheless be ineligible if they encompass laws of nature, physical phenomena or abstract ideas.

According to the court, Digitech's patent claimed an abstract idea because it described a process of gathering and combining patent-ineligible data in a manner that doesn't require input from a physical device. Without more, "a process that employs mathematical algorithms to manipulate existing

information to generate additional information" isn't patent-eligible.

Citing *Alice*, the Federal Circuit conceded that such a claim may indeed be eligible if it includes additional inventive features so the claim covers something more than just the abstract idea. But it rejected Digitech's claim that the patent language expressly tied the method to an image processor. The court found that the method claim "generically" described a process of combining two data sets into a device profile — the claim didn't cover the image processor's use of that profile in the capturing, transforming or rendering of a digital image.







### Another thumbs down

Digitech also contended that the device profile was eligible for a patent because it is a tangible object that's an "integral part of the design and calibration of a processor device within a digital image processing system."

As the Federal Circuit noted, to be eligible, all of the patent-eligible categories of inventions except process claims must exist in some physical or tangible form. The court found that the device profile isn't a tangible or physical thing. Rather, it said, it's a collection of intangible color and spatial information.

The device profile, the court further clarified, comprises two sets of data — and the patent isn't directed to any tangible embodiment of this information (such as in physical memory or other medium). "Data in its ethereal, non-physical form is simply information" that doesn't fall into any of the patent-eligible categories.

Digitech asserted that the device profile exists as a tag file appended to a digital image. The patent language, however, suggested otherwise. The patent didn't describe the device profile as a tag or any other embodiment of hardware or software.

**Claims that fit within one of the four patent-eligible categories can be ineligible if they encompass laws of nature, physical phenomena or abstract ideas.**

### More resolution

This first patent-eligibility decision by the Federal Circuit since the Supreme Court's *Alice* ruling brings a bit more resolution to the business-method patent brouhaha. And, unfortunately for some holders of method patents, it isn't good news. ○

## Juicy decision

*FD&C Act doesn't bar Lanham Act claims*

When is a pomegranate-blueberry juice not a pomegranate-blueberry juice? That's what a district court will get to decide now that the U.S. Supreme Court has ruled in *POM Wonderful LLC v. Coca-Cola Co.* This highly anticipated unanimous decision clarifies that the federal Food, Drug, and Cosmetic (FD&C) Act doesn't prohibit lawsuits brought by a competitor under the Lanham Act, the federal trademark and false advertising statute.



## Seeds of the case

POM Wonderful produces, markets and sells a pomegranate-blueberry juice blend. It filed a Lanham Act claim against Coca-Cola — alleging that the name, label, marketing and advertising of one of Coca-Cola’s juice blends misled consumers into believing the product consists predominantly of pomegranate and blueberry juice.

In fact, the blend consists predominantly of less expensive apple and grape juices. POM claimed the resulting confusion caused it to lose sales.

The district court ruled that the FD&C Act and its regulations preclude Lanham Act challenges to the name and label of Coca-Cola’s juice blend. The U.S. Court of Appeals for the Ninth Circuit affirmed.

## Laws on labeling

Among other things, the Lanham Act allows one competitor to sue another for unfair competition arising from false or misleading product descriptions.

The FD&C Act prohibits the misbranding of food and beverages, and the Food and Drug Administration (FDA) has issued regulations regarding food and beverage labeling — including one addressing juice blends. Unlike the Lanham Act, the FD&C Act and its regulations give the federal government nearly exclusive enforcement authority and don’t permit enforcement lawsuits by private parties.



## Fruitful combination

Neither the Lanham Act nor the FD&C Act expressly forbids or limits Lanham Act claims challenging labels that are regulated by the FD&C Act. The Supreme Court found this to be powerful evidence that Congress didn’t intend FDA oversight to be the exclusive means of ensuring proper food and beverage labeling. Further, the Court said that, where two statutes are complementary, holding that Congress intended one federal statute to preclude operation of the other would show disregard for the congressional design.

## The Food and Drug Administration has issued regulations regarding food and beverage labeling, including one addressing juice blends.

The Court found that the two laws complement each other in major respects. Both touch on food and beverage labeling. But the Lanham Act protects commercial interests against unfair competition, while the FD&C Act protects public health and safety.

They also complement each other with respect to remedies, according to the Supreme Court. The FD&C Act’s enforcement is largely left to the FDA, while the Lanham Act allows private parties to sue competitors to protect their interests.

The FDA doesn’t necessarily pursue enforcement measures against all objectionable labels. Thus, the Court reasoned, preclusion of Lanham Act claims would leave commercial interests — and indirectly the public — with less effective protection in the food and beverage labeling realm than in other less regulated industries.

## Potential spoils

The Supreme Court’s ruling could lead to a rise in false advertising lawsuits over product labels on food and beverages. After all, compliance with the FD&C Act and its regulations can no longer be considered a shield against Lanham Act claims challenging the regulated activity. ○

# Can an obscure online post constitute prior art?

Years ago, the go-to online hangouts were Usenet newsgroups. These discussion forums have now been largely usurped by social networking sites. Nonetheless, in *Suffolk Technologies, LLC v. AOL, Inc.*, the U.S. Court of Appeals for the Federal Circuit considered whether a post on an obscure Usenet newsgroup could constitute prior art and, therefore, invalidate a patent.

## Decoding the arguments

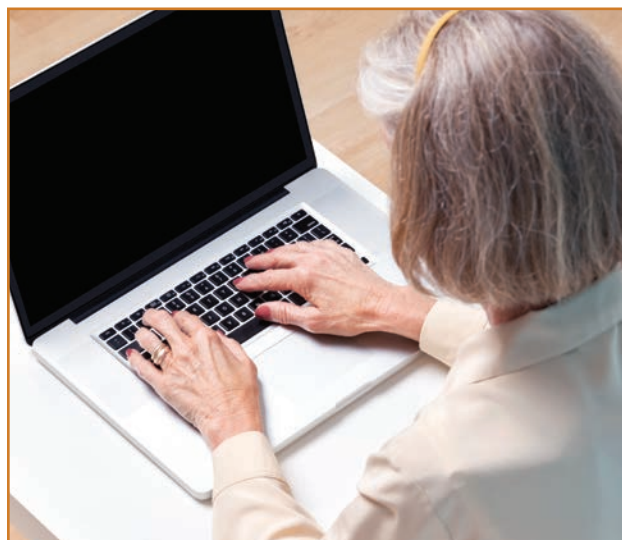
Suffolk Technologies owns a patent on methods and systems for controlling a server that supplies files to computers. In June 2012, Suffolk sued Google for infringement. (It also sued AOL, but the parties settled.)

In response, Google argued that the patent's claims were anticipated based on a June 1995 nonindexed, nonsearchable post in a newsgroup — nine months before the priority date claimed for Suffolk's patent. The district court found the patent invalid, prompting Suffolk to appeal.

## Accessing a document

An invention isn't patentable if it was disclosed in "prior art," such as a printed publication, before the filing date of the patent application. As the Federal Circuit explained here, "public accessibility" is the touchstone in determining whether a reference constitutes a "printed publication."

A document is publicly accessible if it has been disseminated or otherwise made available to the extent that persons interested and ordinarily skilled in the subject can locate it exercising reasonable diligence. Suffolk argued that the newsgroup post's audience didn't comprise individuals of ordinary skill in the subject, but mostly beginners. The company also argued that locating the post would be difficult.



The Federal Circuit found that Suffolk misunderstood the level of ordinary skill in the subject at the time when it contended that the newsgroup was populated mostly by beginners, not those of ordinary skill. The court pointed out that only those with access to a university or corporate computer, a subset of those more likely to be skilled, could use newsgroups.

As to locating the post, the Federal Circuit found that newsgroups were organized in a hierarchical manner, making it easy for an interested party to locate a list of posts on the topic. Moreover, a printed publication needn't be easily searchable if it was sufficiently disseminated at the time of publication. The court determined that this was the case here because the post elicited at least six responses in the week after its publication, and many more people may have viewed the posts without commenting.

## Searching deep

For patent holders in today's age of big data, the costs of an inadequate prior art search can be high. In this case, Suffolk lost not only its infringement case, but also its patent. ○

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## Trade Secrets Become More Significant after the AIA

By Kyle T. Peterson

Patent law has recently undergone significant reform with the enactment of the America Invents Act (AIA). One such reform improves the value proposition of trade secrets.

The Uniform Trade Secrets Act defines trade secrets as having two key elements. A trade secret is information that: (1) derives economic value from being not generally known or readily ascertainable by proper means; and (2) is the subject of “reasonable efforts” under the circumstances to maintain its secrecy. When a trade secret owner makes a claim for trade secret misappropriation, the owner must prove that these two criteria are met, by clear and convincing evidence.

Generally, to have made “reasonable efforts” to maintain secrecy, a company should have robust employment agreements and policies, non-disclosure agreements with investors and consultants, and mechanisms to prevent public disclosure - both intentional and accidental. The magnitude of these efforts depends on the value of the trade secret.

As with patents, laboratory notebooks can be valuable in identifying, protecting, and proving the existence and maintenance of trade secrets. Many companies also maintain an inventory or mechanism to identify trade secrets internally. Such systems can assist in proving the existence of trade secrets, that the company adequately protected those secrets, and can help quantify the value of the trade secret - for both financial and legal purposes.

For many technologies, a patent’s limited life span of twenty years from filing provides adequate protection. However, for inventions whose useful lifespans have the potential to be much longer, trade secrets offer a more valuable option because the protection can last indefinitely, i.e., as long as the secret can be kept. Many famous inventions have taken advantage of trade secret protection - the formulations of WD-40 and Coca-Cola are well-known examples. Since all patents eventually expire, trade secrets can be critical to inventions that may not gain market acceptance and momentum for a long time.

The remedies available for trade secret misappropriation and patent infringement include both monetary and injunctive relief. In patent cases, the prevailing plaintiff can be awarded a reasonable royalty and/or lost profits, but cannot disgorge the infringer’s profits. Unlike patent cases, a trade secret judgment can award the plaintiff its losses as well as the defendant’s unjust enrichment. Both types of protection also permit additional monetary relief for a defendant’s willful or malicious conduct.

Before the AIA, an accused infringer who had practiced a patented invention in secret for many years prior to the patentee’s filing date could not rely on a so-called “prior user right,” unless the patent was for a so-called “business method.” Under the AIA, prior user rights have been extended to any technology. Having a robust trade secret, and practicing that trade secret prior to later patenting by another can provide an invaluable affirmative defense to patent infringement charges through prior user rights.

The AIA also expanded what is available as prior art to patent applications and patents, thereby expanding the universe of material prior art over which a claimed invention must be novel and non-obvious. In view of these developments under the AIA, companies may now opt for trade secret protection; because a trade secret does not require novelty or non-obviousness to be valuable and protectable.

A wide variety of innovations may be protected by patents and/or as trade secrets. Deciding which path to follow is made more difficult with the expansive changes introduced by the AIA. However, trade secrets provide a crucial component of a robust intellectual property portfolio and should not be overlooked.