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Shawn P. Gorman and Aseet Patel

Banner & Witcoff Intellectual Property Alert

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Intellectual Property Alert:

Three Rounds to Knock Out Ultramercial's Patent on "Advertising as Currency"

By Shawn P. Gorman and Aseet Patel

Nov. 21, 2014 — After sparring three separate rounds at the Court of Appeals for the Federal Circuit, in a panel opinion authored by Judge Lourie, the Federal Circuit affirmed the district court's grant of Defendant WildTangent's pre-answer Fed. R. Civ. P. 12(b)(6) motion to dismiss the suit for failure to claim patent eligible subject matter. *See Ultramercial, Inc. v. Hulu, LLC*, No. 2010-1544, slip op. at 3 (Fed. Cir. Nov. 14, 2014) [hereinafter *Ultramercial III*]. The Court held all claims of Ultramercial's U.S. Patent No. 7,346,545 (the '545 patent) invalid under 35 U.S.C. § 101 as patent ineligible. The Court's scrutiny primarily focused on the method recited as claim 1, however, the Court reasoned that "[a]s the other claims of the ['545] patent are drawn to a similar process [as claim 1], they suffer from the same infirmity as claim 1 and need not be considered further." *Id.* at 5. Claim 1 recites:

> A method for distribution of products over the Internet via a facilitator, said method comprising the steps of:
>
> a first step of receiving, from a content provider, media products that are covered by intellectual-property rights protection and are available for purchase, wherein each said media product being comprised of at least one of text data, music data, and video data;
>
> a second step of selecting a sponsor message to be associated with the media product, said sponsor message being selected from a plurality of sponsor messages, said second step including accessing an activity log to verify that the total number of times which the sponsor message has been previously presented is less than the number of transaction cycles contracted by the sponsor of the sponsor message;
>
> a third step of providing the media product for sale at an Internet website;
>
> a fourth step of restricting general public access to said media product;
>
> a fifth step of offering to a consumer access to the media product without charge to the consumer on the precondition that the consumer views the sponsor message;
>
> a sixth step of receiving from the consumer a request to view the sponsor message, wherein the consumer submits said request in response to being offered access to the media product;
>
> a seventh step of, in response to receiving the request from the consumer, facilitating the display of a sponsor message to the consumer;

> an eighth step of, if the sponsor message is not an interactive message, allowing said consumer access to said media product after said step of facilitating the display of said sponsor message;
>
> a ninth step of, if the sponsor message is an interactive message, presenting at least one query to the consumer and allowing said consumer access to said media product after receiving a response to said at least one query;
>
> a tenth step of recording the transaction event to the activity log, said tenth step including updating the total number of times the sponsor message has been presented; and
>
> an eleventh step of receiving payment from the sponsor of the sponsor message displayed.

The Court's legal reasoning for the holding of invalidity followed a pattern similar to many of their recent decisions involving the issue of patent eligibility. *See buySAFE, Inc. v. Google, Inc.*, 765 F.3d 1350 (Fed. Cir. 2014); *I/P Engine, Inc. v. AOL, Inc.*, Nos. 2013-1307, -1313, 2014 WL 3973501 (Fed. Cir. Aug. 15, 2014); *Digitech Image Techs., LLC v. Elecs. for Imaging, Inc.*, 758 F.3d 1344 (Fed. Cir. 2014). The Court recapitulated the framework set out in *Alice Corp. v. CLS Bank Int'l* as follows:

> A § 101 analysis begins by identifying whether an invention fits within one of the four statutorily provided categories of patent-eligible subject matter: processes, machines, manufactures, and compositions of matter. 35 U.S.C. § 101. . . . "First, we determine whether the claims at issue are directed to one of those patent-ineligible concepts." . . . Then, in the second step, if we determine that the claims at issue are directed to one of those patent-ineligible concepts, we must determine whether the claims contain "an element or combination of elements that is 'sufficient to ensure that the patent in practice amounts to significantly more than a patent upon the [ineligible concept] itself.'"

Ultramercial III, slip op. at 7–8 (citations omitted) (alteration in original) (characterizing *Alice Corp. v. CLS Bank Int'l*, 134 S. Ct. 2347 (2014)).

Under the two-part § 101 analysis, the Court first examined method claim 1 of the '545 patent to assess whether it recited an abstract idea. The Court found that although claim 1 recites an "ordered combination of [eleven] steps, [it] recites an abstraction—an idea, having no particular concrete or tangible form." *Id.* at 9. The Court reasoned that "[a]lthough certain additional limitations, such as consulting an activity log [as recited in the second step of claim 1], add a degree of particularity, the concept embodied by <u>the majority of the limitations</u> describes only the abstract idea of showing an advertisement before delivering free content." *Id.* at 9–10 (emphasis added). Moreover, the Court noted that the inclusion of merely novel or non-routine components, which Ultramercial vehemently argued are recited in claim 1 of the '545 patent, do not necessarily turn an abstraction into something concrete. *Id.* at 10; *see Supplemental Brief of Plaintiffs-Appellants*, *Ultramercial, Inc. v. Hulu, LLC*, No. 2010-1544 (Fed. Cir. Aug. 27, 2014), 2014 WL 4402271, at *5-7. The Court stressed this point by elaborating on the distinctiveness of the first step of the two-part analysis, stating that: "any novelty in implementation of the idea is a factor to be considered only in the second step of the *Alice* analysis." *Ultramercial III*, slip op. at 10.

Nevertheless, in the second step of the two-part § 101 analysis, the Court was still unpersuaded by Ultramercial's arguments about the novelty of its method steps. The Court reasoned "[t]hat some of the eleven steps were not previously employed in this art is not enough—standing alone—to confer patent eligibility upon the claims at issue." *Id.* at 12. "None of these eleven individual steps, viewed 'both individually and as an ordered combination,' transform the nature of the claim into patent-eligible subject matter." *Id.* at 11 (quoting *Alice Corp.*, 134 S. Ct. at 2355). The Court continued: "The majority of those steps comprise the abstract concept of offering media content in exchange for viewing an advertisement." *Id.* (emphasis added). "Adding routine additional steps such as updating an activity log, requiring a request from the consumer to view the ad, restrictions on public access, and use of the Internet does not transform an otherwise abstract idea into patent-eligible subject matter. Instead, the claimed sequence of steps comprises only 'conventional steps, specified at a high level of generality,' which is insufficient to supply an 'inventive concept.'" *Id.* at 11 (quoting *Alice*, 134 S. Ct. at 2357). In particular, the Court noted that "the use of the Internet is not sufficient to save otherwise abstract claims from ineligibility under § 101." *Id.* (citing *CyberSource Corp. v. Retail Decisions, Inc.*, 654 F.3d 1366, 1370 (Fed. Cir. 2011) (reasoning that the use of the Internet to verify credit card transaction does not meaningfully add to the abstract idea of verifying the transaction)).

In addition, the Court scrutinized the claims under the machine-or-transformation test, which *Bilski v. Kappos* stated can provide a "useful clue" in the second step of the two-part § 101 analysis. *See Bilski v. Kappos*, 561 U.S. 593, 604 (2010). Even under the machine-or-transformation test, the Court arrived at the same conclusion—that the claims are directed towards patent ineligible subject matter. "Any transformation from the use of computers or the transfer of content between computers is merely what computers do and does not change the analysis." *Ultramercial III*, slip op. at 13. Regarding the machine prong of the machine-or-transformation test, the Court explained that the recitation of a "facilitator" in the preamble of claim 1 did not tie the claims to a novel machine, because "the specification [of the '545 patent] makes clear that the facilitator can be a person and not a machine." *Id.* Regarding the transformation prong of the test, the Court concluded that "[t]hese manipulations of 'public or private legal obligations or relationships, business risks, or other such abstractions cannot meet the test because they are not physical objects or substances, and they are not representative of physical objects or substances.'" *Id.* (quoting *In re Bilski*, 545 F.3d 943, 963 (Fed. Cir. 2008) (en banc), *aff'd on other grounds*, *Bilski*, 561 U.S. 593).

Concurring Opinion – Judge Mayer

Spanning 12 pages, Judge Mayer's concurring opinion was almost as long as the 14-page panel opinion. In the concurring opinion, Judge Mayer reiterated some of the same positions as in his previous concurring opinion in *I/P Engine, Inc. v. AOL, Inc.*, Nos. 2013-1307, -1313, 2014 WL 3973501 (Fed. Cir. Aug. 15, 2014) (Mayer, J., concurring). Judge Mayer emphasized three main points regarding his views on 35 U.S.C. § 101 and enforcement of patent-eligible subject matter under the Court's guidance set forth in *Alice*.

“First, whether claims meet the demands of 35 U.S.C. § 101 is a threshold question, one that must be addressed at the outset of litigation.” *Ultramercial III*, slip op. at 1 (Mayer, J., concurring) (emphasis added). Section 101 “is the sentinel, charged with the duty of ensuring that our nation’s patent laws encourage, rather than impede, scientific progress and technological innovation.” *Id.* at 2. Judge Mayer’s strong language, albeit in a concurring opinion, will likely provide fodder for litigators in the decision over whether or not to pursue a Rule 12(b)(6) motion to dismiss, much in the same way that WildTangent did in this case.

Second, despite the Patent Act indicating that issued patents shall be “presumed valid,” Judge Mayer stated that: “no presumption of eligibility attends the section 101 inquiry.” 35 U.S.C. § 282; *Id.* at 1. Judge Mayer explained: “Because the PTO has for many years applied an insufficiently rigorous subject matter eligibility standard, no presumption of eligibility should attach when assessing whether claims meet the demands of section 101.” *Id.* at 6–7.

“Third, *Alice Corporation v. CLS Bank International*, for all intents and purposes, set out a technological arts test for patent eligibility.” *Id.* at 1. Judge Mayer went on to explain that “*Alice* recognized that the patent system does not extend to all products of human ingenuity. Because the system’s objective is to encourage ‘the onward march of science,’ its rewards do not flow to ideas—even good ones— outside of the technological arena.” *Id.* at 7–8; *see also Myriad*, 133 S. Ct. at 2117 (“Groundbreaking, innovative, or even brilliant discovery does not by itself satisfy the § 101 inquiry.”). “In assessing patent eligibility, advances in non-technological disciplines—such as business, law, or the social sciences—simply do not count.” *Id.* at 8. Judge Mayer further elaborated that “[i]t is not that generic computers and the Internet are not ‘technology,’ but instead that they have become indispensable staples of contemporary life. Because they are the basic tools of modern-day commercial and social interaction, their use should in general remain ‘free to all men and reserved exclusively to none.’” *Id.* at 11 (quoting *Funk Bros. Seed Co. v. Kalo Inoculant Co.*, 333 U.S. 127, 130 (1948)).

The concurring opinion admitted that the Supreme Court “declined to hold ‘that business methods are categorically outside of § 101’s scope.’ Notably, however, [the Supreme Court] invited [the Federal Circuit] to fashion a rule defining a ‘narrower category’ of patent-ineligible claims directed to methods of conducting business.” *Id.* at 9. Judge Mayer appears to believe that his proposed rule “holding that claims are impermissibly abstract if they are directed to an entrepreneurial objective, such as methods for increasing revenue, minimizing economic risk, or structuring commercial transactions, rather than a technological one, would comport with the guidance provided in both *Alice* and *Bilski*.” *Id.*

Conclusion

Ultramercial III held that claim 1 of the ’545 patent was patent ineligible as directed to an abstract idea and applied the same rationale to the remaining claims. Given that the Supreme Court previously admonished the Federal Circuit for formulating bright-line rules, it is not surprising that the Court did not proffer a definition of “abstract idea;” instead, the Court provided a benchmark, noting that the ’545 patent failed to claim “significantly more” than simply the abstract idea. Nevertheless, the Court did acknowledge that it did “not purport to state that all claims in all software-based patents will necessarily be directed to an abstract idea. Future cases may turn out differently." *Ultramercial III*, slip op. at 10.

Going forward, perhaps the Court's repeated references to a "majority" of the 11 steps recited in claim 1 of the '545 patent may suggest a new best practice for patent practitioners drafting new patent applications and prosecuting existing applications, particularly in the business method and software arts. Further, in the wake of *Alice*, some of the suggestions raised by practitioners and judges, have sometimes seemed counter-intuitive, but may help lead to a path to finding patent eligible subject matter under the *Alice* framework. *See, e.g.*, *McRO, Inc., v. Capcom, Inc.*, No. 12-10337, 2014 WL 4758745, at *8 (C.D. Cal. Sept. 22, 2014) ("Section 101 motions can place parties in unfamiliar and uncomfortable positions: here it is to the patentee's advantage to identify noninfringing alternatives…; the reverse of their positions at the infringement and damages stages of the case.").

Finally, *Ultramercial III* is also telling for what is *not* stated in the opinion, almost as much as what is expressly stated. For example, Judge Lourie—who authored the Court's opinion, and also sat on the panels of *Ultramercial I* and *Ultramercial II*—did not reconcile the Court's decision with the previous legal reasoning and analysis confirming the '545 patent as claiming patent-eligible subject matter. *See Ultramercial, LLC v. Hulu, LLC*, 657 F.3d 1323 (Fed. Cir. 2011) [*Ultramercial I*]; *Ultramercial, LLC v. Hulu, LLC*, 722 F.3d 1335 (Fed. Cir. 2013) [*Ultramercial II*]. A juxtaposition of the analysis and reasoning in *Ultramercial I* and *Ultramercial II* against the reasoning in *Ultramercial III* may be revealing of the changing landscape.

Click here to download the decision in *Ultramercial III*.

SUPREME COURT

IP Decisions Abound at the Supreme Court in Spring 2014

Aaron P. Bowling

Banner & Witcoff Intellectual Property Update

April 21, 2014

IP DECISIONS ABOUND AT THE SUPREME COURT IN SPRING 2014

BY: AARON BOWLING

After leaving the realm of intellectual property law alone for decades, and allowing the Federal Circuit 25 years of mostly undisturbed jurisprudence, the United States Supreme Court has strongly reestablished its presence over the past eight years. This year especially, the Court will hear a wide array of patent, trademark and copyright cases, setting the stage for 2014 to be a banner year for Supreme Court IP decisions. Now, more than ever, successful and effective IP practice will require close observance of the high court's activity. To help, a synopsis follows of each case decided, or to-be-decided, in 2014.

CAN LACHES BE APPLIED WHEN PLAINTIFF IS WITHIN THE STATUTE OF LIMITATIONS?

On January 21, the Supreme Court heard oral arguments in *Petrella v. MGM,* a copyright infringement action involving 1980 boxing movie, "Raging Bull." In its forthcoming opinion, the Supreme Court will address the applicability of laches to copyright infringement claims brought within the statute of limitations.

Laches is an equitable defense that bars a plaintiff's unreasonably delayed claims. In *Petrella,* the daughter and heir of screenwriter Frank Petrella sued Metro-Goldwyn-Mayer Studios (MGM) in 2009, alleging that the "Raging Bull" film constituted an unauthorized exploitation of Petrella's derivative rights.

Although Petrella was asserting her rights nearly 30 years after MGM released the film, she sought damages only for acts of infringement occurring within the three-year statute of limitations set forth in the Copyright Act, i.e., from 2006 to the filing of her complaint.

Nonetheless, the Central District of California, and subsequently the Ninth Circuit, held that Petrella's claim was barred by laches. Both courts agreed that Petrella's delay was unreasonable, and that the delay prejudiced the defendants, both from a commercial and evidentiary standpoint.

At oral arguments in January, the Justices actively debated Congress' intended purpose for the three-year statute of limitations provision, and whether Congress' purpose was distinct from the underlying policy objectives of laches. Furthermore, the Court considered, if laches and the statute of limitations can in fact coexist, should laches bar the plaintiff from obtaining injunctive relief, damages or both?

The high court appeared divided, reflecting a stark division that currently exists among federal appellate courts: the Fourth Circuit completely bars defendants from asserting laches within the statute of limitations; the Eleventh Circuit allows laches during the statutory period only for retrospective (not prospective) relief; the Second Circuit allows laches only for equitable (not legal) relief; and the Ninth Circuit allows laches without restriction.

The decision, expected in June, is highly anticipated amongst copyright owners, particularly those in the film and music industries, where copyright owners often assert their rights years after the alleged infringement.

PATENTEES *ALWAYS* BEAR BURDEN OF PROVING INFRINGEMENT

On January 22, the Supreme Court began its year by unanimously reversing the Federal Circuit in *Medtronic v. Mirowski Family Ventures*. The high court held that the burden of proving infringement remains on the patent owner, even when a licensee seeks a declaratory judgment of noninfringement. The decision, authored by

Justice Stephen Breyer, substantially benefits patent licensees, who, upon showing declaratory standing, may now force the licensor to prove that a licensed patent covers the licensee's products, and do so at a time and forum of the licensee's choosing.

As a general rule, the patentee always carries the burden of proving infringement; but at the case below, the Federal Circuit carved out an exception in the limited circumstances where a licensee files declaratory judgment against its licensor. In those cases, the three-judge panel held, the *licensee* must prove *non*infringement, rather than the patentee proving infringement.

The Supreme Court quickly rejected the Federal Circuit's burden shift, first taking a statutory approach and pointing out that the Declaratory Judgment Act has only procedural, not substantive, impact. The burden of proof is a substantive matter, and a burden shift a substantive change, and thus, the burden shift was legal error.

The Court also rejected the Federal Circuit on policy grounds, opining that the new exception would cause post-litigation uncertainty about the scope of the litigated patent. If the declaratory judgment had a different burden than its corresponding coercive action, the Court explained, the declaratory judgment action would have no claim preclusive effect over the later action. Instead, the parties would be forced to relitigate the entire infringement allegation, and the declaratory judgment action would fail to achieve its intended purpose of providing an "immediate and definitive determination of the legal rights of the parties."

The respondents expressed concerns that, without the Federal Circuit's exception, licensees could easily "force the patentee into full-blown patent infringement litigation . . . at [their] sole discretion." The Court countered that those circumstances are strictly limited to situations where the licensee can show a genuine dispute of "sufficient immediacy and reality" about the patent's validity or its application. Overall, the Court concluded, the "general public interest considerations are, at most, in balance . . . and do not favor a change in the ordinary rule imposing the burden of proving infringement upon the patentee."

Overall, the Court concluded, the "general public interest considerations are, at most, in balance . . . and do not favor a change in the ordinary rule imposing the burden of proving infringement upon the patentee."

CHANGES TO THE STANDARD FOR ATTORNEYS' FEES AWARDS IN PATENT CASES APPEAR IMMINENT

On February 26, the Supreme Court heard oral arguments in two cases, *Octane Fitness v. Icon Health & Fitness* and *Highmark v. Allcare Health Management,* both directed to the standard for determining when an award of attorneys' fees is appropriate. Under 35 U.S.C. § 285, courts should award attorneys' fees only in "exceptional" cases. The Federal Circuit finds a case is "exceptional" only when "both (1) the litigation is brought in subjective bad faith, and (2) the litigation is objectively baseless."

In *Octane,* the district court granted summary judgment of noninfringement in favor of alleged infringer Octane, but denied Octane's request for attorneys' fees, finding that plaintiff's case was neither objectively baseless nor brought in bad faith. After the Federal Circuit affirmed, Octane petitioned the Supreme Court, asserting that the Federal Circuit's "rigid" test for awarding fees "improperly appropriates a district court's discretionary authority" and "raises the standard for accused infringers (but not patentees) to recoup fees." As a result, Octane argued, patent plaintiffs are encouraged to bring "spurious patent cases" to cause competitive harm or coerce unwarranted settlement from defendants.

In *Highmark,* defendant Highmark also prevailed at district court by defeating a claim of infringement, but the Federal Circuit

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reversed in part the district court's award of attorneys' fees. In its petition, Highmark asked the Supreme Court to address the level of deference that appellate courts give to fee award determinations. As the law stands, the Federal Circuit uses three distinct standards of review for the various aspects of its "exceptional" test. The "objectively baseless" prong receives *de novo* review; the "subjective bad-faith" prong is reviewed for clear error; and if the case is deemed exceptional, the awarding of fees is reviewed under an abuse of discretion standard.

At oral argument, the Court appeared to favor both petitioners. Regarding *Octane,* the majority of justices seemed convinced that district courts require more discretion in deciding whether to award attorneys' fees in accordance with § 285. A revised standard may instruct district courts to consider the totality of the circumstances and determine if the failure to shift fees would result in a "gross injustice." Regarding *Highmark,* the majority of justices appeared to agree that appellate courts need to provide more discretion to district court fee awards, for example, by utilizing an abuse of discretion standard.

If the Supreme Court's ruling falls along these lines, practitioners can expect district courts to issue attorneys' fees to alleged infringers more readily, and can expect appellate courts to more rarely overturn those awards on appeal.

ARE COMPUTER-IMPLEMENTED SOFTWARE METHODS PATENT ELIGIBLE?

On March 31, the Supreme Court heard arguments in *Alice Corp. v. CLS Bank International* on whether claims to computer-implemented process or system inventions are ineligible for patent protection under 35 U.S.C. § 101 as being directed to abstract ideas.

Alice's patents relate to a computerized trading platform used for conducting financial transactions. Under the claimed invention, a third party "settles" (oversees and ensures) obligations between a first and second party so as to eliminate the risk that one party will perform while the other will not.

CLS allegedly began infringing the Alice patents in 2002. After licensing negotiations failed, CLS filed declaratory judgment in the District Court of D.C., asserting invalidity and noninfringement. The District Court granted summary judgment of invalidity, holding that Alice's patents constituted patent ineligible abstract ideas under § 101.

The district court explained that the method "of employing an intermediary to facilitate simultaneous exchange of obligations in order to minimize risk" is a "basic business or financial concept." Thus, the court continued, a "computer system merely 'configured' to implement an abstract method, is no more patentable than an abstract method that is simply 'electronically' implemented."

At the Federal Circuit, a three-judge panel reversed the district court, holding that computer-implemented inventions like Alice's are *eligible* under § 101 unless it is "manifestly evident" that the claims are about an abstract idea. To be "manifestly evident," the "single most reasonable understanding" must be "that a claim is directed to nothing more than a fundamental truth or disembodied concept, with no limitations in the claim attaching that idea to a specific application."

CLS petitioned for rehearing *en banc,* and after granting the petition, the Federal Circuit vacated the earlier panel opinion, reinstated the district court's holding and ultimately issued six separate opinions spanning more than 125 pages. The Court split 5-5 with respect to the eligibility of Alice's computer system claims and failed to offer a majority-endorsed approach for determining whether a computer-implemented invention is a patent-ineligible, abstract idea.

In urging the Supreme Court to grant its cert petition, Alice pointed to the Federal Circuit's "inability to make a decision" and the apparent "enormous confusion that exists" as evidence that prompt intervention is necessary.

The level of interest in *Alice v. CLS Bank* among those in the software industry is enormous. The Supreme Court received 51 amicus briefs, including those filed by technology giants Google and Microsoft, and an amicus co-authored by Banner & Witcoff's Charles W. Shifley on behalf of the Intellectual Property Law Association of Chicago.

At oral argument on March 31, the Justices struggled to gain clarity and consensus on what benefits, if any, the proposed changes to software patent eligibility may provide. Justice Stephen Breyer, the most active member of the bench, likened the Court's predicament to being "between Scylla and Charybdis." Like Odysseus navigated a strait between the two monsters, the Supreme Court endeavored to define patent eligibility so as to allow the patenting of "real inventions with computers," yet prevent the patenting of abstract ideas.

In its forthcoming opinion, expected by the end of June, the Supreme Court may chart new waters and rule broadly on the patent eligibility of software-based patents, or it may instead rule narrowly, affirming the Alice invention as ineligible for patent, and confronting the issue of software eligibility another day.

THE LANHAM ACT AND FALSE ADVERTISING OF FOOD PRODUCTS

In POM Wonderful v. Coca Cola, the Supreme Court will address the interplay between the false advertising provisions of the Lanham Act and the Food, Drug & Cosmetics Act (FDCA). In 2008, POM sued Coke under the Lanham Act and California state false advertising laws, alleging that Coke misled consumers into believing that Coke's Pomegranate Blueberry product contained predominantly pomegranate and blueberry juice.

Lanham Act § 1125(a) broadly prohibits false advertising, authorizing suit against those who use a false or misleading description or representation "in connection with any goods." Any person "who believes that he or she is or is likely to be damaged by" the use of that false description or representation may bring suit. Likewise, the FDCA provides that a food is misbranded if "its labeling is false or misleading in any particular," or "[i]f any word, statement, or other information required by" the FDCA or its regulations "to appear on the label or labeling is not prominently placed thereon with such conspicuousness . . . and in such terms as to render it likely to be read and understood by the ordinary individual under customary conditions of purchase and use."

Coke's Pomegranate Blueberry juice beverage contains 0.3 percent pomegranate juice and 0.2 percent blueberry juice in a fruit juice blend that contains 99.4 percent apple and grape juice. Food and Drug Administration (FDA) regulations, however, allow juice producers to describe their product using the names of juices that are used in only very small volumes as flavoring. Thus, even if POM's assertions of false advertising were true, Coke was nonetheless in compliance with FDA regulations.

With that conflict in mind, the Central District of California held that the FDCA barred POM's Lanham Act claim against the name and labeling of Coke's product and expressly preempted POM's state law claims. The Ninth Circuit affirmed, pointing to FDCA's 337(a), which requires that "all such proceedings for the enforcement, or to restrain violations, of [the FDCA] shall be by and in the name of the United States." The Ninth Circuit held that the FDA "comprehensively regulates food and beverage labeling," and "for a court to act when the FDA has not — despite regulating extensively in this area — would risk undercutting the FDA's expert judgments and authority." To "give effect to Congress' will,"

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the Ninth Circuit furthered, "we must respect the FDA's apparent decision not to impose the requirements urged by POM."

After hearing arguments on April 21, the Supreme Court's holding may go in a number of directions: it may bar all private claims under the FDCA, it may bar Lanham Act claims directed to products regulated by the FDCA, or it may reverse the Ninth Circuit and allow private claims against food companies.

ARE STREAMING INTERNET TELEVISION BROADCASTS "PUBLIC PERFORMANCES?"

In *American Broadcasting Companies v. Aereo,* the Supreme Court will decide whether a company "publicly performs" a copyrighted television program when it retransmits a broadcast of that program to paid subscribers over the Internet.

Under the federal Copyright Act, the owners of protected creations have an exclusive right "to perform the copyrighted work publicly." Aereo, a two-year-old company based in New York, captures over-the-air television broadcasts and retransmits the broadcasts to Aereo subscribers. Each Aereo subscriber, for $8 a month, receives a miniature antenna to capture the signal and interact with a cloud-based digital video recorder.

While cable and satellite companies normally pay copyright owners "retransmission consent fees" in order to carry network programming, Aereo does not compensate nor obtain authorization from the broadcasting companies.

Last April, the Second Circuit ruled in favor of Aereo, declaring that such transmissions are not a "public performance," and thus there is not a violation of the federal Copyright Act. Despite the victory below, Aereo filed cert at the Supreme Court in order to obtain a definitive answer on the issue. Without the Supreme Court stepping in, Aereo alleged, the TV broadcasting industry would otherwise "wage a war of attrition" by re-litigating the issue in every market to which Aereo expands its business.

The Second Circuit decision followed its 2008 decision in *Cartoon Network v. Cablevision,* where it held that Cablevision's transmission of DVR-recorded programs were not public performances. In so holding, the Second Circuit concluded that one-to-one transmission of a specific program signal is not a public performance. Thus, as the industry brief notes, "so long as no two people can receive the same transmission of a performance, the public performance right is not violated — even if the performance is being transmitted concurrently to thousands of members of the public."

In the present case, the Second Circuit compared Aereo's business to a local consumer's ability to watch and record a program for later viewing (i.e., DVR). In that light, because Aereo assigns each of its users an individual antenna at the time the show is streamed or recorded, the company's "performance" is private, not public. "Control, exercised after the copy has been created, means that Aereo's transmissions from the recorded copies cannot be regarded as simply one link in a chain of transmission, giving Aereo's copies the same legal significance as the RS-DVR copies in Cablevision."

Thus, the Second Circuit held, Aereo is lawfully providing a service to local residents, all of whom could have performed the service themselves, individually. The Supreme Court will hear arguments from Aereo and ABC on April 22.

IS A CLAIM WITH MULTIPLE, REASONABLE INTERPRETATIONS INDEFINITE?

In *Nautilus v. Biosig,* the Supreme Court will review the Federal Circuit's test for invalidating an issued patent on grounds of indefiniteness under 35 U.S.C. § 112(b) (pre-AIA). In particular, petitioner Nautilus urges the Supreme Court to reject the Federal Circuit's requirement that the alleged infringer prove, by clear and convincing evidence, that claims are "insoluble," i.e., that the claim is "not amenable to construction."

Patent claims, in delineating the patentee's right to exclude others from making, using and selling the invention, play a critical role in enforcing the core public interests lying at the foundation of the United States patent system. If the patentee fails to draft claims of sufficient precision and definiteness, the public is not adequately informed of the bounds of the protected invention. Instead, the carefully prescribed rights provided to the patentee are inflated, and the contribution to science lessened. Thus, 35 U.S.C. § 112(b) requires that patent claims "particularly point[] out and distinctly claim[]" the claimed subject matter; and failure to do so renders the patent indefinite and therefore invalid and unpatentable.

At the Federal Circuit below, a three-judge panel held that the term "spaced relationship" did not suffer from indefiniteness. Although "spaced relationship" arguably permitted multiple, reasonable interpretations by those skilled in the art, the claim was nonetheless amenable to a construction, and therefore, not "insoluble." Petitioner Nautilus now asks the high court to address whether "the Federal Circuit's acceptance of ambiguous patent claims with multiple reasonable interpretations — so long as the ambiguity is not 'insoluble' by a court — defeat[s] the statutory requirement of particular and distinct patent claiming."

The Federal Circuit's test for indefiniteness, Nautilus argues, allows for unreasonable advantages to the patentee and disadvantages to others arising from uncertainty as to their respective rights. This "zone of uncertainty which enterprise and experimentation may enter only at the risk of infringement claims" stifles innovation. Moreover, Nautilus asserts, allowing claims with multiple, reasonable interpretations incentivizes patent drafters to purposefully obfuscate their invention. This may lead to further downstream problems for the judicial system, where courts are forced to "spend a substantial amount of judicial resources trying to make sense of unclear, overbroad, and sometimes incoherent claim terms."

The Supreme Court will hear arguments on April 28 amidst a flurry of recent debate on indefiniteness, including an August 2013 Government Accountability Office study for Congress that identified "unclear and overly broad patents" as one of the three key factors cited by stakeholders as contributing to the recent increase in patent litigation. All of the patent community will be watching closely, as even a minor change to the definiteness law could have far-reaching implications.

DOES INDUCED INFRINGEMENT REQUIRE DIRECT INFRINGEMENT BY A SINGLE ENTITY?

In *Limelight v. Akamai,* on April 30, the Supreme Court will review an *en banc* Federal Circuit decision holding that induced infringement involving multiple actors under 35 U.S.C. § 271(b) does not require a single entity to have directly infringed the patent under 35 U.S.C. § 271(a) (direct infringement). The Supreme Court's decision may be momentous for the telecommunication and technology industries, where end users are increasingly interacting with large, multi-component networks to complete multi-step processes.

35 U.S.C. § 271(b), which codifies induced infringement, states that "whoever actively induces infringement of a patent shall be liable as an infringer." Traditionally, courts have held that induced infringement under § 271(b) requires (1) an act of knowing inducement to infringe (with knowledge of the patent); and (2) actual direct infringement of the patent as defined by § 271(a).

The Akamai patents-in-question pertain to website "content-delivery" technology. In particular, the asserted patents claim a

The Federal Circuit's test for indefiniteness, Nautilus argues, allows for unreasonable advantages to the patentee and disadvantages to others arising from uncertainty as to their respective rights.

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method of rapidly delivering Internet content (e.g., streaming video) to users by rerouting embedded website objects to servers located in close proximity to the user. At the district court, Akamai alleged that Limelight induced infringement of those patented methods by providing content to its users via the claimed methods, and a district court jury subsequently awarded Akamai over $40 million in lost profits.

A 6-5 majority of a sharply-divided Federal Circuit rejected Limelight's argument, holding that "it is not necessary to prove that all the steps were committed by a single entity."

On appeal before the Federal Circuit, Limelight asserted there was no induced infringement because there was no direct infringement under § 271(a). Rather, Limelight claimed, no single entity practiced each of the steps of the claimed method: Limelight completed the first several steps and end users performed the last step. Accordingly, Limelight concluded, the district court's ruling on induced infringement failed as a matter of law.

A 6-5 majority of a sharply-divided Federal Circuit rejected Limelight's argument, holding that "it is not necessary to prove that all the steps were committed by a single entity." Instead, § 271(a) direct infringement may be based on "acts of infringement . . . committed by an agent of an accused infringer or a party acting pursuant to the accused infringer's direction or control."

Leaders of the technology industry have staunchly opposed the Federal Circuit decision, claiming that the court impermissibly created a new basis for patent infringement. Many have also contended that the Federal Circuit's new rule imposes an unreasonable obligation on businesses selling otherwise non-infringing products and services, forcing them to monitor third-party end users.

Other parties, including several biotechnology firms, have backed the Federal Circuit decision, asserting that the new rule closes a significant loophole. Under the new rule, they point out, parties can no longer easily evade the exclusionary rights of method patent holders by having an end user perform the final steps. ■

Banner & Witcoff will closely monitor each of these cases over the next several months and will continue to provide updates and analysis in its IP Alerts. To subscribe to these alerts, please contact Chris Hummel at ***chummel@bannerwitcoff.com.***

Supreme IP: The U.S. Supreme Court Weighs in on IP Rights

Ross A. Dannenberg and R. Gregory Israelsen

Banner & Witcoff Intellectual Property Update

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SUPREME IP: THE U.S. SUPREME COURT WEIGHS IN ON IP RIGHTS

BY ROSS A. DANNENBERG & R. GREGORY ISRAELSEN

Starting with *Medtronic, Inc. v. Mirowski Family Ventures, LLC* — analyzed in Banner & Witcoff's Spring 2014 Newsletter — the U.S. Supreme Court considered a number of intellectual property cases in its 2013–14 term. From patent-eligible subject matter to the copyright implications of new technology, the Court's opinions provide guidance on a wide variety of topics, each of which is analyzed below. In addition, as of September 2, 2014, the Supreme Court has granted certiorari in another three cases. These are also introduced below.

PATENT CASES

***Alice Corp. v. CLS Bank International:* Patent-Eligible Subject Matter**

One of this term's most-watched intellectual property cases was *Alice Corp. v. CLS Bank International*, where the Court reviewed the standard for determining patent-eligible subject matter under 35 U.S.C. § 101. The Court examined judicially created exceptions to statutory text; specifically, that "laws of nature, natural phenomena, and abstract ideas are not patentable." In *Alice*, the claims were directed to a "scheme for mitigating 'settlement risk' — *i.e.*, the risk that only one party to an agreed-upon financial exchange will satisfy its obligation, . . . using a computer system as a third-party intermediary." The Court held that the claims at issue in *Alice* were "directed to an abstract idea," and thus not patentable.

The Court elicited a two-step framework to determine whether claims are directed to an abstract idea. In future cases, when a district court addresses this issue, the court must first "determine whether the claims at issue are directed to [a] patent-ineligible concept" — here, an abstract idea. Second, the court must "search for an 'inventive concept' — *i.e.*, an element or combination of elements that is 'sufficient to ensure that the patent in practice amounts to significantly more than a patent upon the [ineligible concept] itself.'"

To determine whether a concept is an abstract idea, the court "must distinguish between patents that claim the 'building blocks' of human ingenuity and those that integrate the building blocks into something more." While the Court acknowledged that "[a]t some level, 'all inventions embody, use, reflect, rest upon, or apply . . . abstract ideas,'" patent claims that "'risk disproportionately tying up the use of the underlying' ideas" are excluded as abstract ideas.

Since 2013, the Supreme Court has either heard or granted certiorari in 7 patent cases, 2 copyright cases, and 4 trademark/Lanham Act cases.

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To determine whether a patent applicant has sufficiently "transform[ed] a claimed abstract idea into a patent-eligible application," the court looks for an "inventive step." Specifically, "[a] claim that recites an abstract idea must include 'additional features' to ensure 'that the claim is more than a drafting effort designed to monopolize the abstract idea.'" For example, the Court reinforced the notion that the claim must "do more than simply state the [abstract idea] while adding the words 'apply it.'"

In analyzing the claims at issue, the Court did not "labor to delimit the precise contours of the 'abstract ideas' category in this case," but simply held that "there is no meaningful distinction between the concept of risk hedging in *Bilski [v. Kappos]*" — which claimed "a longstanding commercial practice" — and the claims in *Alice*. Further, in searching for an "inventive step," the Court held that the claims covered "'well-understood, routine, conventional activities' previously known to the industry. In short, each step does no more than require a generic computer to perform generic computer functions." Therefore, the claims were not patent eligible under Section 101. In the Court's view, the claims — if allowed to be patented — would have prevented anyone else from performing any form of computerized intermediated settlement.

Nautilus, Inc. v. Biosig Instruments, Inc.: Definiteness Requirement of 35 U.S.C. § 112, ¶ 2

Section 112 of the Patent Act requires a patent specification to "conclude with one or more claims particularly pointing out and distinctly claiming the subject matter which the applicant regards as [the] invention." In *Nautilus*, the Court examined "the proper reading of the statute's clarity and precision demand." The claims before the Court were directed to a heart-rate monitor used with exercise equipment. The Court did not express an opinion on the validity of the claims, but held that "a patent is invalid for indefiniteness if its claims, read in light of the specification delineating the patent, and the prosecution history, fail to inform, with reasonable certainty, those skilled in the art about the scope of the invention." The Court refers to this as the "reasonable-certainty standard." The Court rejected the Federal Circuit's previous indefiniteness standard, which considered a claim indefinite "only when it is 'not amenable to construction' or 'insolubly ambiguous.'"

The Court explained several aspects of the Section 112, ¶ 2 inquiry. First, the Court evaluates definiteness "from the perspective of someone skilled in the relevant art." Second, "claims are to be read in light of the patent's specification and prosecution history." Third, the Court measures definiteness "at the time the patent was filed."

Interestingly, the Court did not reconcile how claim definiteness can be evaluated both in light of the specification *and prosecution history* and *at the time the patent was filed*. Additionally, the Court acknowledged that "applicants face powerful incentives to inject ambiguity into their claims," and explained that "the patent drafter is in the best position to resolve" ambiguities in claims.

Thus, in *Nautilus*, the Court attempted to achieve a "delicate balance" by establishing a "reasonable-certainty standard" for evaluating definiteness. However, the Court did not provide an illustrative example for how to apply its new standard, instead remanding to the Federal Circuit to reconsider the disputed claims under this new "reasonable certainty" standard.

***Limelight Networks, Inc. v. Akamai Technologies, Inc.*: Divided Infringement**

In *Limelight*, the Court held that a defendant is not liable for inducing infringement of a patent under 35 U.S.C. § 271(b) when no one has directly infringed the patent under § 271(a). The Court reversed an *en banc* panel of the Federal Circuit, which had held that § 271(b) liability for induced infringement "arises when a defendant carries out some steps constituting a method patent and encourages others to carry out the remaining steps."

Limelight Networks operates a content-delivery network, "and carries out several of the steps claimed in" a patent for which Akamai is the exclusive licensee. "[B]ut the record is undisputed that Limelight does not" perform all the steps of the claimed method.

The Court relied heavily on the Federal Circuit's 2008 decision in *Muniauction, Inc. v. Thomson Corp.,* where the Federal Circuit "started from 'the proposition that direct infringement requires a single party to perform every step of a claimed method.'" The Court did not consider whether that proposition was correct — the question presented being induced infringement under § 271(b), not direct infringement under § 271(a). Instead, the Court "assum[ed] without deciding that the Federal Circuit's holding in *Muniauction* is correct," and held that "there has simply been no infringement of [a] method" when "the performance of all the patent's steps is not attributable to any one person." In other words, there can be no induced infringement absent a showing of direct infringement.

This holding parallels the Court's approach to contributory infringement in *Deepsouth Packing Co. v. Laitram Corp*. There the Court "rejected the possibility of contributory infringement" where "a manufacturer produced components of a patented machine and then exported those components overseas to be assembled by its foreign customers." Because the machines were never assembled in the United States, there was never direct infringement, and the manufacturer could not be liable for contributory infringement. "Similarly, in this case, performance of all the claimed steps cannot be attributed to a single person, so direct infringement never occurred." The Court therefore held that Limelight was not liable for induced infringement.

***Octane Fitness, LLC v. Icon Health & Fitness, Inc., and Highmark Inc. v. Allcare Health Management System, Inc.*: Standard for Awarding Attorneys' Fees in Patent-Infringement Cases**

Section 285 of the Patent Act provides that "[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party." In *Octane Fitness, LLC v. Icon Health & Fitness, Inc.*, the Court considered the proper approach for evaluating a request for fees under § 285. The district court, after granting Octane Fitness's motion for summary judgment of non-infringement, denied Octane's request for fees under the approach established in 2005 by the Federal Circuit in *Brooks Furniture Mfg., Inc. v. Dutailier Int'l*. The *Brooks Furniture* approach limited the award of attorney fees in patent cases to "when there has been some material inappropriate conduct" or when the litigation is both "brought in subjective bad faith" and "objectively baseless." The Federal Circuit affirmed both orders.

On review, the Court unanimously rejected the *Brooks Furniture* approach. The Court explained that the *Brooks Furniture*

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approach is "unduly rigid, and impermissibly encumbers the statutory grant of discretion to district courts." Instead, the analysis "begins and ends with the text of § 285 . . . This text is patently clear." The only constraint on district courts' discretion to award attorney fees is that they do so only in "exceptional cases." 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." Thus, a district court "may determine whether a case is 'exceptional' in the case-by-base exercise of their discretion, considering the totality of the circumstances." Further, according to the Court, this approach is not new, but rather a return to the standard used from 1946 to 2005.

Additionally, the Court rejected *Brooks Furniture*'s clear-and-convincing-evidence standard of proof required for patent litigants to prove entitlement to fees. Section 285 does not require a "specific evidentiary burden, much less such a high one." Instead, the correct standard of proof is a preponderance of the evidence, "because it 'allows both parties to share the risk of error in roughly equal fashion.'"

The Court therefore reversed the Federal Circuit, and remanded the case for review using the correct standard.

On remand, the Federal Circuit itself remanded the *Octane Fitness* case back to the district court. In doing so, the Federal Circuit reminded the district court that it is not *obligated* to award fees if a case is determined to be exceptional, but rather may choose to do so at its discretion.

In *Highmark Inc. v. Allcare Health Management System, Inc.*, argued together with *Octane Fitness*, the Court considered the standard for reviewing a district court's award of fees under § 285.

Citing the Court's focus on the text of § 285 in *Octane Fitness*, the Court held that "[b]ecause § 285 commits the determination of whether a case is 'exceptional' to the discretion of the district court, that decision is to be reviewed on appeal for abuse of discretion." Therefore, the Court reversed and remanded the case to the Federal Circuit for review of the district court's fee grant using an abuse-of-discretion standard.

COPYRIGHT CASES

American Broadcasting Companies, Inc. v. Aereo, Inc.: Meaning of "Public Performance" Under Copyright Act

Another closely watched intellectual property case this term was *American Broadcasting Companies, Inc. v. Aereo, Inc*. A 6–3 majority of the Court held that Aereo infringed the exclusive right to "perform [a] copyrighted work publicly" when "selling its subscribers a technologically complex service that allows them to watch television programs over the Internet at about the same time as the programs are broadcast over the air."

Aereo's system includes thousands of tiny antennas in a central location, which individual users may use to watch over-the-air broadcast content. When a user selects content to watch, a single antenna is allocated to that user — and only that user — and the content received by that antenna is transmitted over the Internet to that user. The user can thus watch over-the-air content over the Internet nearly simultaneously with the over-the-air broadcast.

The Court analyzed two questions in determining whether Aereo infringed the right to perform a copyrighted work publicly. First, "does Aereo 'perform' at all? And second, if so, does Aereo do so 'publicly?'"

In analyzing whether Aereo performs, the Court admitted that "the language of the Act does not clearly indicate when an entity 'perform[s]' . . . and when it merely supplies equipment that allows others to do so." The Court analogized Aereo's technology to cable TV (CATV) technology of 40 years ago. CATV providers "placed antennas on hills above" cities, then "amplified and modulated the signals" to rebroadcast them to customers. In 1968 and 1974, the Court held that CATV systems did not infringe the copyrights of the content they rebroadcast; "[v]iewers do not become performers by using 'amplifying equipment' and a CATV provider should not be treated differently for providing viewers the same equipment." But in 1976, Congress amended the Copyright Act "to reject the Court's holdings . . . [and] to bring the activities of cable systems within the scope of the Copyright Act."

Even though the Court acknowledged a "particular difference between Aereo's system" and CATV systems — that only "in automatic response to the subscriber's request does Aereo's system activate an antenna and begin to transmit the requested program" — the Court "d[id] not see how this single difference, invisible to subscriber and broadcaster alike, could transform a system that is for all practical purposes a traditional cable system into" one that does not "perform" within the scope of the Copyright Act.

In analyzing whether Aereo performs "publicly," the Court similarly ignored "technological differences" between Aereo's system and traditional cable systems. In the Court's view, "Congress would as much have intended to protect a copyright holder from the unlicensed activities of Aereo as from those of cable companies." Thus, the Court interpreted "the public" to apply to "a group of individuals acting as ordinary members of the public who pay primarily to watch broadcast television programs."

Even though the Court held that Aereo infringed the right of public performance, the Court stressed that "we do not believe that our limited holding" will "discourage or control the emergence or use of different kinds of technologies." The Court specifically noted that "questions involving cloud computing, remote storage DVRs, and other novel issues not before the Court" are not covered by its holding. Justice Scalia authored a strong dissent.

It remains to be seen if "Congress will take a fresh look at this new technology" and "decid[e] whether the Copyright Act needs an upgrade." But for now, the Court limited its holding to Aereo's system and others like it, thus hoping to avoid disturbing future investments in and development of other new technologies.

Petrella v. Metro-Goldwyn-Mayer, Inc.: Applicability of Laches to Copyright-Infringement Claims

In *Petrella*, a 6–3 majority of the Court held that laches cannot be invoked as a bar to a copyright-infringement claim for damages brought within the Copyright Act's three-year statute of limitations. The author's daughter, Paula Petrella, inherited the copyright to a 1963 screenplay on which the 1980 MGM film *Raging Bull* was based. She sued MGM for infringement in 2009. Petrella "sought no relief for conduct occurring outside" the three-year limitations period, but the district court and the Ninth Circuit nevertheless invoked laches as a bar to relief, because Petrella *could have* brought her claim earlier.

Congress established "a right to sue for infringement occurring no more than three years back from the time of suit," and "[t]hat regime leaves 'little

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