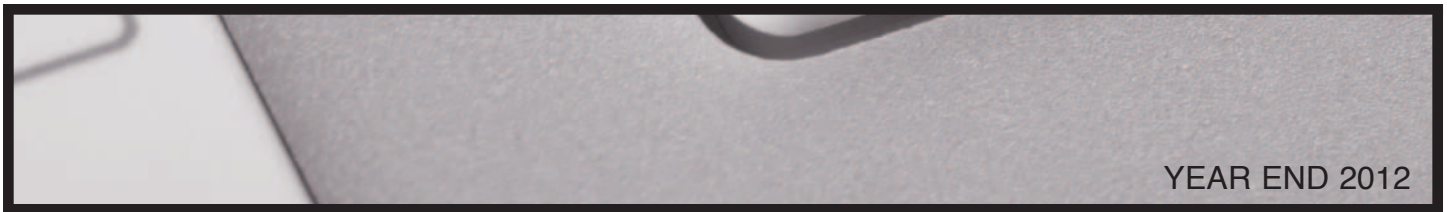




IDEAS ON INTELLECTUAL PROPERTY LAW



YEAR END 2012

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Cantor Colburn LLP

Intellectual Property Attorneys

A more permissive approach?

New patent test issued for computer-based inventions

To patent or not to patent; that is the question. And it's a question that just keeps coming up — especially in the case of so-called business-method patents that involve the use of computers.

The U.S. Supreme Court's decision in *Mayo Collaborative Svcs. v. Prometheus Laboratories, Inc.* in early 2012 seemed to bring some clarity to the matter. Namely, many observers believed *Mayo* would make it harder for the holders of business-method patents to overcome challenges asserting that their inventions are unpatentable abstract ideas.

But the U.S. Court of Appeals for the Federal Circuit, which hears all appeals of patent cases, has since declared yet another new rule about when computer-based inventions may qualify for patent protection. Its decision in *CLS Bank Int'l v. Alice Corp. Party Ltd.* caught many by surprise because the resulting rule appears to indicate a more permissive approach in favor of patentability.

Lawsuits exchanged

Alice Corp. owns four patents that cover a computerized trading platform for exchanging obligations. A trusted third-party intermediary uses the platform to settle obligations between a first and second party to eliminate settlement risk (the risk that only one party's obligation will be paid, leaving the other party without its principal).

The patents include both method (or process) claims and system claims. The system claims involved executing the process using a data processing system made up of a data storage unit and a computer.

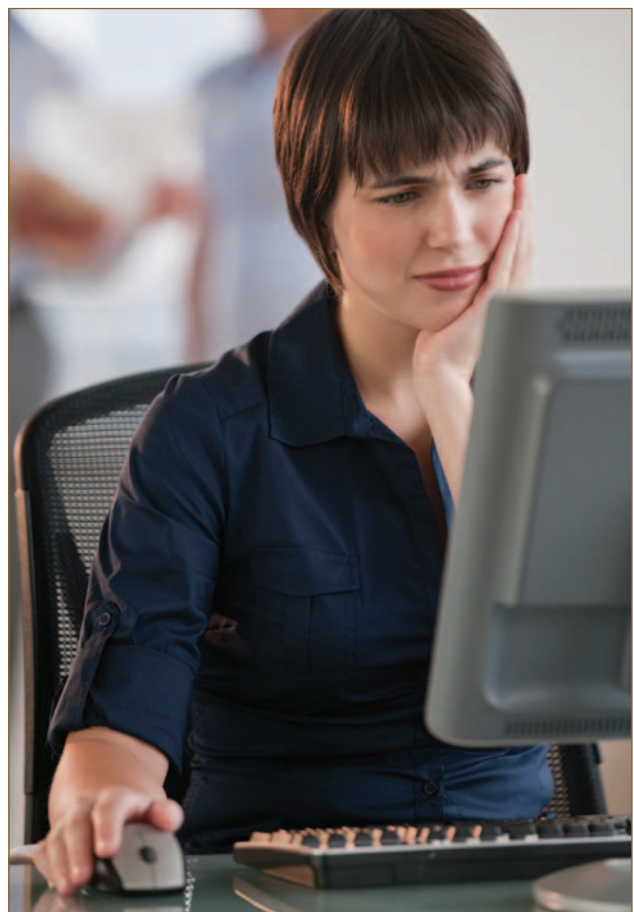
CLS Bank sued Alice, seeking a declaratory judgment that its patents were invalid. Alice countersued for patent infringement. The district court dismissed the infringement suit, holding the patents were invalid because they claimed unpatentable abstract ideas. Alice appealed to the Federal Circuit.

Clarity elusive

Under the federal Patent Act, abstract ideas are ineligible for patents. But just what constitutes an abstract idea?

As the Federal Circuit noted, the "abstractness of the 'abstract ideas' test to patent eligibility has become a serious problem, leading to great uncertainty." Despite many previous court decisions and extensive legal commentary, the dividing line between inventions that involve unpatentable abstract ideas and those that don't remains elusive.

Some courts have relied on the notion of "preemption." Under this concept, patents that cover no more than a fundamental truth and foreclose, rather than foster, future innovation are invalid.



Federal Circuit finds computerized method unpatentable

Not even a month after the U.S. Court of Appeals for the Federal Circuit issued its decision in *CLS Bank Int'l v. Alice Corp. Party Ltd.* (see main article), it reviewed a similar case — and ruled differently.

In *Bancorp Svcs., LLC v. Sun Life Assurance Co. of Canada*, Bancorp alleged that Sun Life infringed two patents it held for a computerized means of administering and tracking the value of life insurance policies. The district court found that the patents were invalid because they failed the machine-or-transformation test.

Unlike its holding in *CLS Bank Int'l*, the Federal Circuit's decision here *affirmed* the district court's ruling. The appellate court explained that the invention in the previous case was patentable because the computer requirements played a "significant part" in the performance of the invention and were limited to a "very specific application" of the inventive concept.

Sun Life's patents, on other hand, included computerized steps for administering and tracking the value of life insurance policies that could be completed manually — even though doing so would be inefficient. The computer only allowed users to manage a policy more efficiently than they could mentally. Using a computer to accelerate an ineligible mental process, the Federal Circuit said, doesn't make that process patentable.

Others have employed the machine-or-transformation test, which considers whether an invention is: 1) tied to a particular machine or apparatus, or 2) transforms a particular article into a different state or thing. The Supreme Court has ruled that this test, while helpful, isn't dispositive on the question of patentability.

Manifestly evident

In this case, the Federal Circuit pointed out that the mere implementation on a computer of an otherwise ineligible abstract idea won't render the asserted invention patentable. A patent that covers a specific way of doing something with a computer is likely to be patentable, whereas a claim to nothing more than the *idea* of doing that thing on a computer isn't.

The court, however, found that even this distillation left great uncertainty over the meaning of the abstract ideas exception. Thus, it proceeded to hold that a patent shouldn't be declared invalid for covering an unpatentable abstract idea unless it's "manifestly evident" that the patent covers an abstract idea. The Federal Circuit further explained that it's inappropriate to hold that a patent covers an unpatentable abstract idea unless the "single most

reasonable understanding" is that the patent covers nothing more than a fundamental truth or disembodied concept.

Not just an abstraction

Turning to Alice's patents, the Federal Circuit criticized the district court for failing to consider the details of the patent as a whole. The appellate court found this approach of ignoring the patent's requirements to abstract a process down to a fundamental truth to be "legally impermissible."

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After assessing the scope and content of the patents, the Federal Circuit determined that they required

computer implementation but, again, acknowledged that computer implementation alone doesn't resolve the patentability question. The court concluded that the patents were valid because they covered the practical application of a business concept in a specific way, which required computer-implemented steps. The computer steps played a significant role in permitting the method to be performed and weren't merely token postsolution activities.

Moreover, the patent left broad room for other methods of using intermediaries to help consummate

exchanges, whether with the aid of a computer or otherwise, thereby dispelling preemption concerns.

Harder to prevail ...?

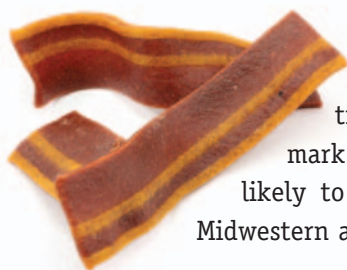
In the wake of this new "manifestly evident" rule, patent challengers may find it harder to prevail when asserting that a patent is invalid based on an abstract idea argument. Then again, the case-specific nature of such tests (see "Federal Circuit finds computerized method unpatentable" on page 3) suggests that further en banc or Supreme Court reviews of this or other similar cases are likely. ○

Barking up the wrong tree: A trademark case

The old saying "Imitation is the sincerest form of flattery" doesn't apply to intellectual property law. Case in point: *Midwestern Pet Foods, Inc. v. Societe des Produits Nestle S.A.*, a decision handed down by the U.S. Court of Appeals for the Federal Circuit. Here the owner of a trademark for pet food and treats took issue when a competitor tried to register a similar mark for its own products.

Denied registration

Midwestern Pet Foods sought to register the mark "Waggin' Strips" for pet food and edible pet treats. Nestle, which has used the registered mark "Beggin' Strips" continuously since 1988, opposed the registration.



The Trademark Trial and Appeal Board refused registration of the "Waggin' Strips" mark. It found that the marks were likely to lead to consumer confusion. Midwestern appealed.

Notable similarities

The likelihood of confusion between marks is determined on a case-by-case basis applying the 13 nonexclusive "DuPont" factors. The Federal Circuit focused on the following three DuPont factors:

- Similarity of the goods, channels of trade and consumers,
- Conditions of sale, and
- Similarity of the marks.

Midwestern attempted to distinguish the marks by "parsing their appearance, meaning, sound and impression." But the court wasn't persuaded. It observed that the marks have the same format, structure and syntax. Both consist of two words, use "strips" and end the participle with "ggin'."

The verb in each participle consists of a single syllable, and the marks have generally the same

pronunciations, cadences and intonations. The verbs also, according to the court, “both suggest dog behavior, and in particular both convey the excitement exhibited by dogs during feeding.”

The marks are used for identical products that would be sold in the same channels of trade to the same consumers. Plus, the associated products are inexpensive items that would be purchased by ordinary consumers who would be unlikely to exercise more than ordinary care in making their purchases.

Ultimate inquiry

The Federal Circuit concluded that the marks were sufficiently similar in their overall commercial impression to deny registration. It explained that the ultimate inquiry is whether, under the conditions



of their sale, confusion as to the source of the goods under the respective marks is likely. The answer here, the court found, was “yes.”

The appellate court also dismissed Midwestern’s contention that the likelihood of confusion was undermined by the use of similar third-party marks on similar goods in the market. The marks it cited, however, either related to different products (such as leashes or grooming services) or were substantially different marks (for example, “Bark N Bac’n”).

Extra treat

As a bonus of sorts for the mark holder, the Federal Circuit ruled for Nestle even though the company didn’t provide consumer survey evidence showing likelihood of confusion. The court found that, though some cases require survey evidence, such evidence was unnecessary in light of the identity of the goods, the similarity in the channels of trade and consumers, and the similarity of the marks themselves. ○

The suit must go on

Copyright Act doesn’t preempt TV contract claim

The Copyright Act can provide much protection. But, as the case of *Forest Park Pictures v. Universal Television Network* shows, it has its limits. In a decision handed down this past summer, the U.S. Court of Appeals for the Second Circuit wouldn’t uphold preemptive protections for a defendant being sued for breach of contract related to copyrightable material.

Outlining the plot

Forest Park Pictures developed an idea for a television series called “Housecall” about a concierge doctor to

the rich and famous in Malibu. It created a written series treatment with character biographies, themes and storylines and submitted it to USA Network, a division of Universal Television Network, Inc. The two parties met and subsequently communicated, but discussions soon ceased.

About four years later, USA Network produced a show called “Royal Pains” about a concierge doctor to the rich and famous in the Hamptons. Forest Park sued USA Network and Universal for breach of contract,

alleging an implied promise by USA to pay reasonable compensation if the series idea were used.

The district court ruled that the Copyright Act preempted a breach of contract claim based on idea submission and dismissed the case. Forest Park appealed.

Reviewing the act

Section 301 of the Copyright Act preempts a state law claim (such as breach of contract) only if:

1. The work at issue is copyrightable, and
2. The right being asserted is equivalent to any of the exclusive rights granted by a copyright.

Among other things, copyright protection gives its owner the rights to reproduce the copyrighted work, prepare derivative works, distribute copies to the public and display the work publicly.

The Second Circuit began its review by noting that, while mere ideas aren't copyrightable, works may nonetheless be copyrightable even if they contain uncopyrightable material. Although the series treatment contained some uncopyrightable ideas, it and associated written materials were "works of authorship

that are fixed in a tangible medium," as required by the Copyright Act. Moreover, because the ideas that are the subject of the claim were fixed in writing (whether or not the writing itself is at issue), the claim is within the realm of copyright law.

Proving the extras

The defendants, however, were also required to show that Forest Park's breach of contract claim sought to vindicate a right equivalent to an exclusive copyright right. But the Copyright Act doesn't provide an express right for the copyright owner to receive payment for the use of a work.

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The court further explained that if an extra element is required — instead of or in addition to the acts of reproduction, performance, distribution or display — to establish a state law claim, that claim isn't preempted. And a plaintiff suing for failure to pay under a contract must prove extra elements, including offer, acceptance and valid consideration.

Recognizing the difference

The Second Circuit concluded that a breach of contract claim including a promise to pay is qualitatively different from a lawsuit to vindicate a right included in the Copyright Act. Therefore, the claim isn't preempted. The court vacated the district court's dismissal and sent the case back for further proceedings. ○



Willful patent infringement standard redefined

A finding of willful patent infringement allows a court to triple the jury's damages award. In light of this risk, accused infringers will probably appreciate *Bard Peripheral Vascular, Inc. v. W.L. Gore & Assocs.*, a June 2012 ruling from the U.S. Court of Appeals for the Federal Circuit. This decision significantly reshapes the test for willful infringement — and could make it harder to prove.

Request denied

Bard Peripheral Vascular, a producer of medical devices, sued W.L. Gore & Associates for infringement of its patent on a vascular graft. The jury found that Gore had willfully infringed the patent, and it awarded Bard more than \$102 million and reasonable royalties exceeding \$83 million *before* any enhancement by the judge as a result of their finding of willful infringement.

Gore asked the district court for a “judgment as a matter of law,” holding that there was no basis for the jury's finding of willfulness. The court denied the request and increased the damages to more than \$371 million. Gore appealed.

Recklessness examined

Since 2007, the Federal Circuit has applied a two-pronged test for determining whether the requisite recklessness exists to support a finding of willful infringement. A patentee must show that:

1. The defendant acted despite an objectively high likelihood that its actions constituted infringement of a valid patent (objective recklessness), and

2. This risk was either so known or so obvious that it should have been known to the defendant (subjective recklessness).

The court has explained that the first prong, objective recklessness, generally isn't satisfied if the defendant relied on a reasonable defense.

Returned to the judge

The ultimate question of willfulness has long been treated as a question for a jury, not a judge. In this case, however, the Federal Circuit observed that the issues involved were particularly complex.

Thus, the court concluded that, while the second prong may be a subjective question for the jury, the district court must first make a threshold determination of objective recklessness that considers the reasonableness of the potential defenses. Only when that judge finds the asserted defenses weren't reasonable can the jury consider the question of subjective recklessness.

The Federal Circuit returned the case to the district court to reconsider its denial of the “judgment as a matter of law” of no willful infringement. That court must determine whether objective recklessness existed and, if so, whether the jury's finding of subjective recklessness was supported by the evidence.

Harder to establish

The new standard is likely to make it harder to establish willful infringement. Instead of simply convincing the jury that both prongs are satisfied, a patentee now must first convince the judge of objective recklessness. ○





Cantor Colburn LLP

Intellectual Property Attorneys

20 Church Street
22nd Floor
Hartford, CT 06103

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Hartford, CT 860.286.2929 | Washington, D.C. 703.236.4500 | Atlanta, GA 404.607.9991 | Houston, TX 713.266.1130 | Detroit, MI 248.524.2300

Managing Partners: Michael A. Cantor and Philmore H. Colburn II