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IP Newsflash

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FEDERAL CIRCUIT CASES

Federal Circuit Vacates Damages Award For Failing to Apportion Damages to Patented Features

On September 16, 2014, the Federal Circuit vacated a $368 million damages award against Apple because the underlying damages model was based on the entire price of Apple products instead of being limited to the infringing features of the devices. The court held that damages experts must ensure that damages theories are based on the value of the infringing features and exclude the value of all other features from their estimates. Plaintiff VirnetX sued Apple in the Eastern District of Texas, alleging that Apple's FaceTime video-calling feature and VPN On Demand secure web connection feature infringed its patents. A jury found that the features infringed four patents and awarded VirnetX $368 million in damages. The Federal Circuit affirmed the jury's finding that the VPN On Deman feature infringed, remanded the infringement finding regarding the FaceTime feature, and vacated the damages award. Plaintiff's damages expert based his damages model on the entire price of the devices, arguing that the devices themselves were the smallest salable unit that practice the patents. The Federal Circuit rejected this approach, holding "A patentee's obligation to apportion damages only to the patented features does not end with the identification of the smallest salable unit if that unit still contains significant unpatented features."

Apple, Inc. v VirnetX, Inc. et al, U.S. Federal Circuit Court of Appeals, No. 2013-1489.

- *Author:* David Lawrence

DISTRICT COURT CASES

Patent Claims that Computerize a Basic Marketing Concept are not Patent Eligible

Judge Donato in the Northern District of California granted defendants' motion to dismiss two of the nine asserted patents for invalidity under Section 101. The defendants filed the motion before the Supreme Court's decision in *Alice Corp v. CLS Bank Int'l*, though the court accepted supplemental briefing on the decision. The two patents – U.S. Patent Nos. 7,647,372 and 7,975,007 – purport to cover "systems and method for carrying on marketing dialogues."

Judge Donato characterized the claims as "a very simple abstract marketing idea" in which (1) a group of people is contacted, (2) a subset of the group is selected, and (3) an action is performed with the subset, such as sending another communication. This idea is nothing more than one of the most basic marketing principles: "identify potential or current customers and engage with them to improve their customer experience." So the court found that the claims cover a patent-ineligible concept.

Like many of the other patents that have fallen in the wake of *Alice Corp.,* the two patents at-issue merely wrapped an abstract idea – in this instance a marketing idea – in generic computer and Internet technology. Indeed, plaintiff's counsel admitted during oral argument that the claimed marketing concept could be implemented on a generic computer system. Thus, the computer-related limitations did not transform the abstract marketing idea into a patent-eligible application. Thus, the court held that the patents are patent ineligible under Section 101.

Open Text S.A. v. Alfresco Software Ltd, No. 13-cv-4843, Dkt. No. 204 (N.D. Cal. Sep. 19, 2014)

- *Author*: John Wittenzellner

Patents Directed to Rounding Method for Contributing to a Recipient Account Claim Patent Ineligible Subject Matter Pursuant to *Alice, Bilski* and *Mayo*

On September 11, 2014, District Judge Steven D. Merryday for the United States District Court Middle District of Florida determined that plaintiff Every Penny Count's (EPC) patents were invalid for claiming unpatentable subject matter. The patents-at-issue are directed to methods and systems of automated saving or automated charitable donations, in which a credit purchase or bank deposit is rounded up or down, respectively, to the next whole dollar, and the remainder is deposited into a savings or charitable giving account. Wells Fargo challenged the validity of the patent by moving for summary judgment under 35 U.S.C. § 101.

The court applied the two-step analysis set forth in the recent Supreme Court decision *Alice Corp. Pty. v. CLS Bank Int'l*. First the court determined that the claims at issue were directed to an abstract idea, which is a patent-ineligible concept. Next, the court considered the other elements of the claims and determined that they were not sufficient to "transform an abstract idea into a patent-eligible invention." The court found that EPC's inventions

were merely a computerized version of a well-known technique, namely that a small saving on multiple occasions accumulates into a large saving.

Although Alice controls this decision, the court held that that *Bilski v. Kappos* and *Mayo Collaborative Serv. v. Prometheus Lab., Inc.* further support the invalidity of EPC's patents as patent ineligible subject matter. Similar to *Bilski,* allowing these patents would effectively grant a monopoly over an abstract idea even though it is limited to one field of use. Unlike *Mayo*, which claimed a novel natural phenomenon that was still found to be invalid, EPC's patents claim a conventional method for modifying and depositing transaction amounts. Therefore, the court granted Wells Fargo's motion for summary judgment that EPC's patents are invalid under Section 101.

Every Penny Counts, Inc. v. Wells Fargo Bank, N.A., No. 8:11-cv-2826 (Fla. M.D. Sep. 11, 2014).

- *Author:* Melissa Gibson

PATENT TRIAL AND APPEAL BOARD

PTAB Invalidates Business Method Patent Under Recent SCOTUS § 101 Precedent

On September 16, 2014, the Patent Trial and Appeal Board (PTAB) invalidated a patent asserted by VirtualAgility, Inc. against Salesforce.com. The PTAB's decision applies the U.S. Supreme Court's framework for determining patent eligibility under 35 U.S.C. § 101 that was set forth recently in *Alice Corp. Pty. Ltd v. CLS Bank Int'l,* 134 S. Ct. 2347 (June 19, 2014).

VirtualAgility asserted U.S. Patent No. 8,095,413 ("the '413 patent") in the Eastern District of Texas in January 2013. In May 2013, Salesforce.com filed a petition at the PTAB under the Transitional Program for Covered Business Method (CBM) Patents, which assesses the validity of patents that the board determines are CBMs. To qualify as a CBM that is reviewable under this program—which was instituted in 2012 and will be available until September 15, 2020—the board must determine that the patent (1) does not claim a "technological invention" and (2) is directed to the practice, administration, or management of a financial product or service. A CBM review can challenge a patent on any grounds for validity, unlike an *inter partes* review that is limited to anticipation and obviousness challenges via prior-art patents and printed publications only. To institute a CBM review, the petitioner must also show that it is "more likely than not" that at least one challenged claim is unpatentable. The PTAB instituted the CBM review in November 2013 after determining that the '413 patent's claims met this standard. While the district court denied Salesforce.com's the request to stay the case during the CBM review, the Federal Circuit reversed upon an interlocutory appeal.

In addition to finding anticipation by a prior art patent, the PTAB found every claim of the '413 unpatentable under § 101. The PTAB centered its decision on the two-step process for analyzing claims under § 101 set forth by the Supreme Court in *Alice*. The first step under *Alice* is to determine whether the claims are directed to a patent-ineligible subject matter – a law of nature, natural phenomenon, or abstract idea. The second step is to consider the elements of the claims both "individually and 'as an ordered combination'" to determine if there are additional elements that "'transform the nature of the claim into a patent-eligible application.'" Alice, 134 S. Ct. at 2355 (quoting *Mayo Collaborative Servs. v. Prometheus Labs., Inc.,* 132 S. Ct. 1289, 1291, 1297 (2012)). The '413 patent is directed to a method and apparatus for managing collaborative activity (e.g., strategic planning and project management) by using a computer database storing data encoding types of collaborative activity (e.g., a list of goals for a project). Applying the *Alice* framework, the PTAB found: (1) the challenged claims are indeed directed to an abstract idea, the creation and use of models to aid in processing management information; and (2) the claims lack an inventive concept, as the recitation of general purpose computer equipment to execute the abstract idea does not impose a meaningful limit on the claims.

Salesforce.com, Inc. v. VirtualAgility, Inc., PTAB Case No. CBM2013-00024 (Sept. 16, 2014).

- *Author*: Samuel Drezdzon

CONTACT INFORMATION

If you have any questions regarding this issue of *IP Newsflash,* please contact–

Todd Eric Landis
tlandis@akingump.com
214.969.2787

Michael Simons
msimons@akingump.com
512.499.6253

www.akingump.com

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