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IP Newsflash

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FEDERAL CIRCUIT CASES

Federal Circuit Reverses $61 Million Judgment Based on Erroneous Claim Construction

Despite the Supreme Court's recent *Teva v. Sandoz* decision that factual findings by a district court during claim construction are entitled to deference, a three-member panel of the Federal Circuit reversed the district court's claim construction and vacated the judgment of infringement against Applera Corp. (Applera) upon finding that the district court erred in its claim construction. Plaintiff Enzo Biochem Corp. (Enzo) filed a complaint in the District of Connecticut alleging that Applera infringed its patent directed to nucleotide probes. The court conducted a claim construction hearing, and subsequently, a jury found that Applera infringed the claims of the asserted patent. Applera filed an appeal asserting that the district court erred in its claim construction.

The district court construed the disputed phrase to cover both direct detection (i.e., chemical moiety "A" comprises the entirety of the signaling moiety) and indirect detection (i.e., "A" is a component of the signaling moiety). First, the Federal Circuit found that this construction was inconsistent with the plain language of the claims because it impermissibly broadened the scope of the claim to include a single-component signaling moiety (i.e., direct detection), and read out a claim requirement that "A" does not interfere with formation of the signaling moiety. Moreover, the specification provided additional support that the claim was limited to indirect detection. Therefore, the Federal Circuit concluded that the district court erred by construing the patent claim to cover both direct and indirect detection and remanded to the district court to determine infringement in light of the new construction. In a dissenting opinion, Justice Newman disagrees with the majority's construction and asserts that the majority failed to show error of fact or law in the district court's findings and conclusions.

Enzo Biochem Inc., v. Applera Corp., No. 2014-1321 (Fed. Cir. Mar. 16, 2015).

- *Author*: Melissa Gibson

Fifth Circuit Holds that a House Can Be Considered an "Advertisement" for Insurance Purposes

On February 27, 2015, the Fifth Circuit held that, under certain circumstances, a fully constructed house can be considered "advertising" for the purposes of triggering insurance obligations. In the underlying lawsuit, Kipp Flores Architects, LLC (KFA) designed homes and licensed those designs to homebuilders. Hallmark Design Homes (Hallmark) entered into several license agreements with KFA. Under those agreements, Hallmark was authorized to build each of KFA's designs only once. If Hallmark wanted to build an additional house from the same design, it was required to pay KFA for another license. Hallmark would later build hundreds of houses beyond the original agreement without obtaining an additional license. KFA later sued Hallmark for copyright infringement. Hallmark requested a defense through its general liability insurer, Mid-Continent Casualty Company (Mid-Continent).

Under the policy, Mid-Continent "will pay those sums that [Hallmark] becomes legally obligated to pay as damages because of 'personal and advertising injury' to which this insurance applies." The policy excluded injuries arising from "infringement of copyright, patent, trademark, trade secret or other intellectual property rights." But, as an exception, the exclusion did not apply to defending infringement "in [Hallmark's] 'advertisement' of copyright, trade dress or slogan."

Mid-Continent defended Hallmark under a reservation of rights, and KFA later won $3.2 million in damages for copyright infringement. After that, Mid-Continent filed a declaratory judgment action and then a motion for summary judgment in the Western District of Texas, seeking a declaration that it had no duty to indemnify Hallmark because the policy excluded damages arising from copyright infringement. KFA filed a cross-motion for summary judgment, arguing that, as an explicit exception, the policy provided for coverage of copyright infringement claims that arose from advertising. The district court granted KFA's cross-motion, and Mid-Continent

appealed shortly thereafter.

On appeal, the Fifth Circuit, in a per curiam opinion, determined that the additional houses constituted an "advertisement" of a copyright for purposes of coverage under the policy. According to the court, an advertisement could be considered "a notice that is broadcast or published to the general public or specific market segments about your goods, products or services for the purpose of attracting customers or supporters." And, "[w]hile 'broadcast' generally implies radio or television advertisement, 'publish' is much more comprehensively defined as 'to make public or generally known' or 'to make generally accessible or available for acceptance or use . . . to present to or before the public.'" Noting that an advertisement of a copyright fell within the policy's coverage, the court concluded that the actual construction of the houses made the public generally aware of the copyrighted works. To support this position, the court reasoned that KFA used model homes for marketing and also put up yard signs to direct traffic to those model homes. According to the court, KFA was, in essence, advertising through a copyright under the coverage of the insurance policy.

Mid-Continent Cas. Co. v. Kipp Flores Architects LLC, Nos. 14-50649, 14-50673 (5th Cir. Feb. 26, 2015) (unpublished) (King, David, Owen, JJ.).

- *Author*: Jesse Snyder

DECISIONS ON PATENTABLE SUBJECT MATTER UNDER *ALICE CORP*

District Court Dismisses Lawsuit Involving E-Commerce Patents under *Alice*

On March 18, 2015, Delaware District Court Judge Richard G. Andrews granted defendant's motion to dismiss two patents that were related to e-commerce activities. At a high level, the patents-in-suit relate to a sales transaction that allows buyers to purchase items at a discounted price based on the buyer's performance during a "Price-Determining-Activity." For example, a buyer's ultimate price would be determined by the buyer's performance in an electronic board game or crossword puzzle.

Judge Andrews applied the two-step *Alice* framework finding that the patents were not drawn to patent-eligible subject matter because the patents claim the abstract idea of "sales transaction," which is a fundamental economic concept. The court rejected plaintiff's argument that the claims were not directed to abstract ideas because similar e-commerce models have been commercialized by Amazon and Ebay. The court reasoned that "even if some of these models are patented, the patents were granted prior to the Supreme Court's decision in *Alice*, and have not, to the court's knowledge, been challenged for invalidity. There are many products and services that are commercially available that are not directed to patent-eligible subject matter."

In evaluating whether the claims contained an "inventive concept," the court found that "[t]he addition of an auction and a competitive activity to a sales transaction is nothing more than the addition of 'well-understood, routine, conventional activity. . . . Reliance on an intermediary activity to determine price has been a practice in sale negotiations throughout history, long before the existence of the Internet or computers. For example, using a coin flip to decide a contract term, where the parties agree beforehand that both will be bound by the result.'"

Priceplay.com Inc. v. AOL Advertising Inc., No. 1:14-cv-00092 (D. Del. March 18, 2015) (Andrews, J.).

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