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A review of developments in Intellectual Property Law

After *B&B Hardware*, What is the Full Scope of Estoppel Arising From a PTAB Decision in District Court Litigation?



By **Grantland G. Drutchas** and **James L. Lovsin**

The America Invents Act (AIA) created several adjudicative proceedings within the Patent Trial and Appeal Board (PTAB) of the U.S. Patent & Trademark Office, including *inter partes* review, post-grant review, and covered business method review (IPR, PGR, and CBM, respectively).¹ The AIA also provided explicit estoppel provisions with respect to District Court litigation for

those proceedings.²

However, as far as District Court litigation goes, these provisions all run against the patent challenger (the Petitioner) in the PTAB

proceeding. After an IPR or PGR proceeding, these provisions prevent a Petitioner from asserting in District Court that a claim is invalid on any “ground” that the petitioner “raised or reasonably could have raised during [the IPR or PGR].”³ For CBM proceedings, the estoppel is even more limited—to grounds the Petitioner actually raised.⁴ None of these provisions apply to the patentee. Nor do they clearly state that this is the only estoppel/preclusive effect that PTAB decisions will be given in District Court litigation. Indeed, the recent Supreme Court decision in *B&B Hardware, Inc., v. Hargus Indus., Inc.*,⁵ suggests that there may be additional impacts of estoppel on District Court litigation beyond the explicit estoppel provisions in the AIA.

Overview of *B&B Hardware*

In *B&B Hardware*, the Supreme Court addressed whether issue preclusion (collateral

estoppel) can apply to issues decided by the *other* administrative board within the PTO, the Trademark Trial and Appeal Board (TTAB). The Court explained in *B&B Hardware* that the general rule for issue preclusion is “when an issue of fact or law is actually litigated and determined by a valid and final judgment, and the determination is essential to the judgment, the determination is conclusive in a subsequent action between the parties, whether on the same or a different claim.”⁶

At issue in *B&B Hardware* was whether a likelihood of confusion determination that was made by the TTAB as part of its decision in a trademark opposition proceeding (to refuse registration for a mark that was similar to B&B Hardware’s mark) should be given preclusive effect in District Court litigation involving infringement of the mark.⁷ The Court held that issue preclusion applies “when the usages

(continued on page 2)



Page 4
When You Don’t Know
What You Know



Page 7
Supreme Court Holds that
Issue Preclusion May
Apply to TTAB Decisions



Page 8
“Blurred Lines” Artists
Lose Multi-million Dollar
Copyright Lawsuit



Page 11
Software Patents Are Still
Very Useful Despite *Alice*

(continued from page 1)

adjudicated by the TTAB are materially the same as those before the district court” and “[s]o long as the other ordinary elements of issue preclusion are met.”⁸

The Court explained that “courts may take it as given that Congress has legislated with the expectation that the principle [of issue preclusion] will apply *except when a statutory purpose to the contrary is evident*.”⁹ The Court carefully analyzed the Lanham Act and found nothing that would bar the application of issue preclusion.¹⁰ The Court also noted the procedural protections afforded in a TTAB proceeding (much like those available in PTAB proceedings), including applying the same legal standards as would an Article III court (although the burden of proof may vary), applying the Federal Rules of Civil Procedure and Evidence, and allowing discovery and depositions. Moreover, the Court reasoned that the differences that do exist between the TTAB and Article III courts (including that under the TTAB’s procedures most proceedings are conducted in writing and lack a jury pursuant to the Seventh Amendment) do not affect the overall outcome. The Court concluded that “there was no categorical ‘reason to doubt the quality, extensiveness, or fairness’ of the agency’s procedures.”¹¹

Does the Presumption of Issue Preclusion Apply to PTAB Decisions?

In the patent arena, decisions of the PTAB’s predecessors have been understood to have at least some preclusive effect for more than fifty years.¹² After *B&B Hardware*, the question of whether issue preclusion applies to PTAB decisions will likely be given a fresh look by litigants and the courts. The arguments for and against the application of issue preclusion will likely turn on the PTAB procedures for IPR, PGR, and CBM proceedings and the text and structure of the Patent Act. Given the correlation between TTAB proceedings and PTAB proceedings, and the lack of any express legislative proscription, there is a real risk to litigants that issues decided in PTAB Final Decisions may be given preclusive effect beyond the estoppel provisions of the AIA.

A. PTAB Procedures

The PTAB procedures for IPR, PGR, and CBM

proceedings are similar to the TTAB procedures that the Court considered in *B&B Hardware* and found “no categorical reason to doubt the quality, extensiveness, or fairness [of].”¹³ For example, like TTAB proceedings, IPR, PGR, and CBM proceedings are decided by Administrative Judges, have written procedural rules, offer discovery, and use the Federal Rules of Evidence.¹⁴ Moreover, like TTAB decisions, PTAB decisions are appealable to the Federal Circuit.¹⁵ Given these similarities, it seems unlikely that there is a “categorical reason to doubt the quality,

It will be interesting to see how litigants and the courts address *B&B Hardware* in the context of PTAB decisions. In the meantime, practitioners should consider the risk that issue preclusion may apply to PTAB decisions until a court holds otherwise.

extensiveness, or fairness” of PTAB procedures for IPR, PGR, and CBM proceedings. Accordingly, the Court’s reasoning in *B&B Hardware* may similarly apply to these PTAB procedures, such that PTAB decisions may give rise to issue preclusion.

B. Patent Act

One obvious difference between the Patent Act and the Lanham Act considered by the Supreme Court in *B&B Hardware* which may affect issue preclusion is that the AIA sets out explicit estoppel provisions for IPR, PGR and CBM proceedings. The Lanham Act does not contain any corollary estoppel provisions for TTAB proceedings.

One could argue that, by explicitly providing for estoppel arising from PTAB decisions, Congress intended to proscribe any further preclusive effect of those proceedings. It remains to be seen, however, whether courts

will agree with this argument. Indeed, there is little to no legislative history to support such an assertion. To the contrary, the legislative record contains two June 2011 letters to the Chairman and Ranking Member of the House Judiciary Committee that suggest otherwise. Senator Kyl requested that these letters, written by Judge Michael McConnell, former Circuit Judge of the Tenth Circuit and current Professor at Stanford Law School, be entered into the record because they were “circulated widely among members and staff and have played a substantial role in the debate about section 18.”¹⁶

In his letters, Judge McConnell analyzes the constitutionality of AIA § 6 (related to IPR and PGR proceedings) and § 18 (related to CBM proceedings) and states that he saw “nothing in sections 6 and 18 of the proposed Act that would alter or interfere with existing principles of *res judicata* or collateral estoppel in the context of a final judgment, much less allow the PTO to disturb the final judgment of a court.”¹⁷ While Professor McConnell’s letters are not typical sources of legislative history relied on by courts — such as Committee Reports or statements by members of Congress — they were entered into the record by Senator Kyl and indicate that issue preclusion was contemplated during the debate on the AIA.

Further, Congress knows how to clearly say when issue preclusion should not apply and has already done so in the patent context. In legislative history related to the U.S. International Trade Commission (ITC), for example, a Senate Report explicitly states that *res judicata* and collateral estoppel should not apply to ITC decisions:

The Commission’s findings neither purport to be, nor can they be, regarded as binding interpretations of U.S. patent law in particular factual contexts. Therefore, it seems clear that any disposition of a Commission action by a Federal Court should not have *res judicata* or collateral estoppel effect in cases before such courts.¹⁸

Based on this specific legislative history, the Federal Circuit has held that ITC decisions are not given *any* preclusive effect.¹⁹ The authors have not been able to identify any similar proscriptive statements in the legislative history of the AIA, however.

The (Preclusive) Possibilities

The PTAB can and must decide a variety of

issues in IPR, PGR, and CBM proceedings. As for ultimate conclusions, the PTAB may determine anticipation and obviousness over printed publications in IPR proceedings and generally all patentability grounds in PGR and CBM proceedings.²⁰

But the risk of issue preclusion goes well beyond these ultimate conclusions. Many subsidiary findings that are necessary to the decision could also be given preclusive effect if issue preclusion applies generally to PTAB decisions. Below are just a few examples of the kinds of PTAB determinations that may be necessary to its decisions:

- the priority date that patent claims should be afforded;
- the scope of the teachings of a particular prior art reference;
- the level of ordinary skill in the art;
- written description support (or lack thereof) for a limitation in a claim; and
- factual findings underlying enablement (including enablement of a prior art reference).

All of these (and many other) factual findings may have significant repercussions in subsequent District Court litigation involving the same — or “related” — patents.

Regarding “related” patents, the Federal Circuit has ruled, for example, that obviousness in a prior litigation can bind a patentee in subsequent litigation involving a related patent.²¹ One could argue that the preclusive effect of PTAB decisions should extend to related patents as well.

Accordingly, in situations where a patent survives a PTAB proceeding, both the patentee and the challenger and those in privity with the challenger may be bound by any such determinations that were necessary to the PTAB’s decision in subsequent District Court litigation.

The Supreme Court in *B&B Hardware* emphasized that the issue decided by the PTAB must be the same issue in the District Court litigation for issue preclusion to apply.²² However, on the patent side, it is not always clear whether the PTAB and District Courts decide the same issue. For example, one could argue that decided issues involving claim construction are not the same because the PTAB and District Courts use different standards for claim construction — the PTAB uses the “broadest reasonable interpretation” standard and District Courts use the “ordinary and customary meaning” standard.²³ As

another example, one could argue that decided issues are not the same because the PTAB decides patentability while District Courts decide invalidity. But that distinction seems to turn on different burdens of proof used in the respective forums rather than any substantive difference in legal standards used, for example, to decide anticipation, obviousness, written description, or enablement.

It will be interesting to see how litigants and the courts address *B&B Hardware* in the context of PTAB decisions. In the meantime, practitioners should consider the risk that issue preclusion may apply to PTAB decisions until a court holds otherwise.

Endnotes

- 1 35 U.S.C. §§ 311-319 (IPR); *id.* §§ 321-329 (PGR); America Invents Act § 18, Pub. L. No. 112-29, 125 Stat. 284, 329-31 (2011) [Title 35 Uncodified Law].
- 2 AIA § 6; 35 U.S.C. § 315(e)(2) (IPR estoppel); *id.* § 325(e)(2) (PGR estoppel).
- 3 35 U.S.C. § 315(e)(2) (IPR); *id.* § 325(e)(2) (PGR).
- 4 AIA § 18(a)(1)(D).
- 5 135 S. Ct. 1293 (2015).
- 6 *Id.* at 1303 (citing Restatement (Second) of Judgments § 27, p. 250 (1980)).
- 7 *Id.* at 1299.
- 8 *Id.* at 1310.
- 9 *Id.* at 1303 (quoting *Astoria Fed. Sav. & Loan Assn. v. Solimino*, 501 U.S. 104, 108 (1991)) (emphasis added and internal quotations omitted).
- 10 *Id.* at 1305-06.
- 11 *Id.* at 1309.
- 12 *See, e.g., Coakwell v. United States*, 292 F.2d 918, 920-21, 130 USPQ 231, 234 (Ct. Cl. 1961) (“Where the losing party fails to effectively review the Patent Office action in one of the courts and it becomes final, it is . . . binding on the parties.”).
- 13 *B&B Hardware*, 135 S. Ct. at 1309.

- 14 *See* 15 U.S.C. § 1067; 35 U.S.C. § 6 (administrative judges); 37 C.F.R. Part 2 (trademark regulations); 37 C.F.R. §§ 2.120 and 2.122; 37 C.F.R. Part 42 (procedural rules); and 37 C.F.R. §§ 42.51 (discovery) and § 42.62 (Federal Rules of Evidence).
- 15 *See* 15 U.S.C. § 1071(a); 35 U.S.C. § 141(c); and AIA § 18(a)(1).
- 16 Cong. Rec. 5374 (Sep. 7, 2011) (statement of Sen. Kyl).
- 17 *Id.* at 5374, 5376.
- 18 S. Rep. No. 1298, 93d Cong. 2d Sess. 196.
- 19 *See Tandon Corp. v. ITC*, 831 F.2d 1017, 1018 (Fed. Cir. 1987); *but see Texas Instruments Inc. v. Cypress Semiconductor Corp.*, 90 F.3d 1558, 1569 (Fed. Cir. 1996) (district courts can “attribute whatever persuasive value to the prior ITC decision as it considers justified”).
- 20 35 U.S.C. § 315(b); *id.* § 321(b); AIA § 18(a)(1)(C).
- 21 *Ohio Willow Wood Co. v. Alps South, LLC*, 735 F.3d 1333, 1342-43 (Fed. Cir. 2013) (issue preclusion against patentee based on patent that issued from continuation application applied to subsequent litigation involving patent that issued from parent application where claims “describe substantially the same invention”).
- 22 *B&B Hardware*, 135 S. Ct. at 1303.
- 23 *Compare In re Cuozzo Speed Techs., LLC*, 778 F.3d 1271, 1278-82 (Fed. Cir. 2015) with *Phillips v. AWH Corp.*, 415 F.3d 1303, 1312 (Fed. Cir. 2005) (en banc). However, in cases where the District Court adopts the PTAB’s claim construction, sameness would be a given.

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2015 BIO covers the wide spectrum of life science innovations and application areas. Drug discovery, biomanufacturing, genomics, biofuels, nanotechnology, and cell therapy are just a



few of the industries represented. Thousands of leaders from over 65 countries are expected to attend 2015 BIO. The key elements of the event are education, networking, BIO Business Forum partnering and the 1,700 companies showcasing the latest technologies, products and services in the BIO Exhibition. View complete details at <http://convention.bio.org>.

When You Don't Know What You Know: The Role of Unappreciated Inherency in the Obviousness Analysis

By James C. Gumina

The patent statute makes it clear that subject matter that would have been obvious to one of ordinary skill in the art as of the effective filing date of a patent application is not patentable.¹ The considerations relevant to obviousness have been set for some time: (1) the scope and content of the prior art; (2) the level of ordinary skill in the art; (3) the differences between the claimed subject matter and the prior art; and (4) secondary considerations of non-obviousness.² There has, however, been much litigation on how courts are to apply these considerations to determine whether an invention would have been obvious and therefore not patentable. Early on when faced with the issue, the courts envisioned a hypothetical person of ordinary skill in an art at the relevant time in a room with all of the relevant prior art.³ Then the court would evaluate what that hypothetical person would find obvious with this assumed knowledge of the prior art. Of course, this has proven more difficult than it sounds. Disputes have arisen as to what the relevant scope of the art should be and what motivation if any would be required for this hypothetical person to combine the art to come up with the claimed invention. One consistent aspect of this analysis has been that hindsight could not be used; the evaluation must be made with the information known to one skilled in the art at the relevant time.

The Supreme Court, in *KSR Intl. v. Teleflex, Inc.*, attempted to clarify the proper analysis for an obviousness determination.⁴ In *KSR*, the Court rejected a rigid formulation for the determination of obviousness in holding that the Federal Circuit's "teaching, suggestion and motivation" test was not the only appropriate analysis. The Court in *KSR* made it clear that the scope of the prior art includes the creativity of one skilled in the art⁵ and the results of routine experimentation where there are known options with a finite number of identified predictable solutions.⁶ At the same time, the Court continued to warn against the improper use of hindsight.⁷

With respect to anticipation, the concept of inherency has been around for some time. A claimed invention can be inherently anticipated even though all the elements of the claimed invention are not explicitly described in the prior art, if when the teaching of the prior art is followed the claimed invention will necessarily and inevitably result.⁸ There is no requirement that anyone at the relevant time understood the inherent quality of the prior art to support an argument of inherent anticipation.⁹ The logic of this position is clear – if the claimed element is inherent in the prior art then the prior art cannot be practiced without infringing the claimed invention. Since it is inappropriate for a patent claim to cover what already exists in the prior art, the claim is anticipated.

The worlds of inherent anticipation and obviousness appear to be colliding. Courts are addressing obviousness arguments that rely upon inherent aspects of the prior art. It is not yet entirely clear what all the parameters are for such arguments, but it is evident that inherency is now undoubtedly a part of the obviousness analysis.

The Federal Circuit has historically been skeptical with respect to using an inherent teaching in an obvious analysis. The court recognized that inherency and obviousness are distinct concepts.¹⁰ Indeed, the court has held that to establish obviousness based upon an inherent property in the prior art, that inherent property would have to be obvious to those skilled in the art at the relevant time.¹¹ It had been clear that a retrospective view of inherency is not a substitute for some teaching or suggestion supporting obviousness.¹²

More recently, however, the Federal Circuit has indicated that, at least in some circumstances, inherent properties of the prior art are an appropriate part of the obviousness analysis even if the inherent properties were not previously appreciated. In *EMI Group v. Cypress Semiconductor*, when reversing the grant of a JMOL that the claims were not invalid as anticipated or obvious, the court conducted an inherent anticipation

analysis but it never actually set forth an obviousness analysis or provided any basis for its obviousness conclusion.¹³ The case is directed to fuses used in integrated circuits.¹⁴ The patent at issue claimed a fuse that was composed of metal having a cap of refractory metal.¹⁵ The claims required that when the fuse is exposed to an energy source (generally a laser) there would be "explosive removal" of the fuse from the circuit.¹⁶ The court found that a fuse of the structure called out in the claim existed in the prior art, but the art did not teach the "explosive removal" set forth in the claim.¹⁷ The Federal Circuit also found that the record below supported a finding that the claimed "explosive removal" was an inherent feature of the structure when an energy source is applied to the prior art fuse.¹⁸ The court concluded "[t]he district court, therefore, improperly granted JMOL that the claims of the '785 and '801 patents are not invalid for anticipation and obviousness."¹⁹ The court clearly set out the basis for inherent anticipation, but the basis for the court's obviousness conclusion is not evident. The court could have simply been saying that the claims are inherently anticipated and therefore JMOL on the validity issue was improperly granted, i.e. obviousness was just along for the ride. But the language the court chose certainly opens the door to the argument that a previously unknown inherent quality of the prior art can be used to support an obviousness argument.

In *In re Huai-Hung Kao*, the Federal Circuit considered the validity of a claim directed to a controlled release oxymorphone composition that required a "food effect" wherein the Cmax blood concentration of the active compound was at least about 50% higher when the dosage form was administered with food as compared to fasted conditions.²⁰ The Patent Office had found that the recited sustained release pharmaceutical composition of the claim was obvious over the prior art, despite the fact that there was no teaching of the claimed food effect in the prior art. On appeal the applicant argued that "an obviousness rejection

can only be based on what is known by those skilled in the art at the time of the invention, and there is no evidence in the record that anyone recognized the claimed food effect at that time.”²¹ The Federal Circuit found that there was substantial evidence that the food effect was an inherent property of oxymorphone regardless of how it was formulated. The court concluded by stating that “[t]his is not a case where the Board relied on an unknown property of the prior art for a *teaching*. Rather [the prior art’s] express teachings render the claimed controlled release oxymorphone formulation obvious, and the claimed “food effect” adds nothing of patentable consequence.”²²

Thus, at least in this case, because the court found that a claim limitation was inherent in the prior art, it was irrelevant to the obviousness analysis. This analysis seems to be the case regardless of the fact that the inherent property was not appreciated in the prior art.²³

In *Allergan v. Sandoz Inc.*, the court found not obvious a method claim for using a composition that had previously been found to be obvious.²⁴ In rebutting the dissent’s view that the method claim should have been obvious, the court explained the use of inherency in anticipation and obviousness evaluations, stating:

The dissent would find claim 4 obvious on the grounds that it merely claims the result of treatment with an obvious composition. In support of its position, the dissent cites a series of cases in which the patentee claimed either a previously unknown result or an undisclosed inherent property of an otherwise anticipated claim. In the context of anticipation, “[n]ewly discovered results of known processes directed to the same purpose are not patentable because such results are inherent.” *Bristol-Myers Squibb Co. v. Ben Venue Labs., Inc.*, 246 F.3d 1368, 1376 (Fed. Cir. 2001). We agree with the dissent that the inherency doctrine may apply to an otherwise obvious claim as well. There is, however, a problem with applying the doctrine in this case.

The evidence of record does not establish that the [claim limitation] is an inherent property or a necessary result of the administration of the [obvious composition]. Of course

it may be true that the mere administration of the [obvious combination] twice a day in any fixed combination inherently produces the claimed result. Alternatively, it may also be true that only certain fixed-combination formulations produce this result. On the present record, we cannot draw a conclusion in favor of either proposition.²⁵

It should be noted that in *Allergan*, the defendant never argued that the claim limitation at issue was inherent in the method. The outcome may have been the other way had the court had a record that would support inherency of the missing claim limitation.

The worlds of inherent anticipation and obviousness appear to be colliding. Courts are addressing obviousness arguments that rely upon inherent aspects of the prior art. It is not yet entirely clear what all the parameters are for such arguments, but it is evident that inherency is now undoubtedly a part of the obviousness analysis.

In the most recent statement on the issue from the Federal Circuit in *Par Pharmaceutical v. TWI Pharmaceuticals, Inc.*, the court set forth a test for the application of inherent obviousness:

A party must, therefore, meet a high standard in order to rely on inherency to establish the existence of a claim limitation in the prior art in an obviousness analysis – the limitation at issue necessarily must be present, or the natural result of the combination of elements explicitly disclosed by the prior art.²⁶

In *Par Pharmaceutical*, the court reversed a finding of obviousness that was based on the inherent presence of a claim limitation.²⁷ It was undisputed that the inherent feature was not appreciated by those skilled in the art.²⁸ The court did not find that relying on an unappreciated inherency to support an obviousness position was improper; to the contrary the court seemed to endorse the approach.²⁹ The court did, however, hold that on the record before them the defendant (and the District Court) had not established that the claimed limitation was inherent in the art, and as such the District Court had applied the incorrect standard for inherency.³⁰ In so holding, the court stressed that the standard for proving inherency is a high one.³¹

From the recent case law it is clear that the obviousness analysis cannot be assumed to be limited to that information that was known in the art. Inherent characteristics, even an unappreciated inherent characteristic, of the prior art should be considered when evaluating an obviousness position. The issue is even more interesting when it is appreciated that the asserted inherency relates to subject matter that never existed in the prior art. Rather, the subject matter would exist only as the combination of multiple prior art references created during litigation. It is not clear how an inherent teaching will affect all obviousness cases. As always, the facts of each case may dictate the outcome. However, it is hard to reconcile the use of unappreciated inherent qualities of the prior art to support obviousness with the constant admonition of the courts against the use of hindsight. In *In re Huai-Hung Kao*, the court avoided this issue by reading the inherent limitation out of the claim stating it “adds nothing of patentable consequence.”³²

But how is that conclusion even possible without the use of hindsight when no one in the prior art recognized the inherent characteristic? Moreover, does it make any sense to find something obvious over the prior art when there is admittedly no evidence that the prior art (including those of ordinary skill in the art) ever appreciated it?

Further, if unappreciated inherent qualities of the prior art can be used to prove obviousness, should they not also be available to refute obviousness? In *Bristol Myers v. Teva*, the Federal Circuit held that an unknown characteristic of the prior art was not available to refute obviousness because the normally

(continued on page 6)

(continued from page 5)

skilled artisan was not aware of the characteristic at the appropriate time.³³ In *Bristol Myers*, the prior art compound, upon which the obviousness position was based, was discovered to be toxic to mammals after the filing of Bristol Myers' patent application.³⁴ The court held that the fact that the prior art compound was toxic and that the claimed compound was not, could not be used to support non-obviousness.³⁵ One of the reasons the court reached this conclusion was that prior to the filing of the patent application, the toxicity of the prior art compound was not known and the prior art compound was being used in research.³⁶ While the court never referred to the toxicity of the prior art as an inherent characteristic, there is no indication anywhere that the compound was only sometimes toxic. The court's refusal to allow the patentee to rely upon a later discovered characteristic of the prior art to establish a distinction between the prior art and the claim invention is hard to reconcile with the court's reliance on unappreciated inherent characteristics of prior art to establish a lack of non-obvious distinction between the prior art and the claimed invention.³⁷ It would seem that the evidence, if useable at all, should be usable to establish either obviousness or non-obviousness as the case may be.

Perhaps the answers to these questions become a little clearer when the nature of the inherent characteristics in these cases is analyzed. In each of the cases where the court relied on the inherent characteristic, it was functional in nature – “explosive removal” in *EMI*; “food effect” in *Kao*; “without a loss of efficacy” in *Allergan*. In each case the claim limitation is the result of using or treating a known or obvious composition of matter. This

application of the law is analogous to logic used when finding inherent anticipation with respect to a claim directed to an unappreciated result. Specifically, when the court has found that a claim limitation is inherent in the prior art (whether appreciated or not), the court has sometimes found that the claimed characteristic (inherent in the art) does not sufficiently distinguish the prior art combination so as to make it non-obvious. The court has simply been unwilling to allow inventors to reserve for themselves something inherent in an obvious derivative of the prior art, even though the combination of the prior art does not explicitly teach the invention.

This aspect of the law is clearly still evolving. As the courts are confronted with ever-changing fact situations, the role of inherency in determining obviousness should become clearer. It is believed, however, that patent challengers will still have an uphill battle – inherency is often difficult to prove. No matter how the case law evolves, one thing has become clear: whether litigating or prosecuting patents, when addressing an obviousness issue, counsel is going to have to consider whether a claim limitation is inherent in the teaching of the prior art.

Endnotes

- 1 35 U.S.C. § 103 (A patent may not be obtained “if the differences between the claimed inventions and the prior art are such that the claimed invention as a whole would have been obvious before the effective filing date of the claimed invention to a person having ordinary skill in the art to which the claimed invention pertains.”).
- 2 *Graham v. John Deere Co. of Kan. City*, 383 U.S. 1, 17-18 (1966).
- 3 *See Union Carbide Corp. v. Am. Can Co.*, 724 F.2d 1567 (Fed. Cir. 1984).
- 4 *See KSR Int'l Co. v. Teleflex Inc.*, 550 U.S. 398 (2007).
- 5 *Id.* at 421 (“A person of ordinary skill is also a person of ordinary creativity, not an automaton.”).
- 6 *Id.*
- 7 *Id.*
- 8 *See, e.g., Leggett & Platt, Inc. v. VUTEk, Inc.*, 537 F.3d 1349, 1354 (Fed. Cir. 2008) (“Under the principles of inherency, if the prior art necessarily functions in the accordance with or includes, the claims limitations, it anticipates.”); *see also In re Montgomery*, 677 F.3d 1375, 1379 (Fed. Cir. 2012).
- 9 *See In re Cruciferous Sprout Litig.*, 301 F.3d 1343, 1349 (Fed. Cir. 2002) (“Inherency is not necessarily coterminous with the knowledge of those of ordinary skill in the art. Artisans of ordinary skill may not recognize the inherent characteristics of functioning of the prior art.”) citing *MEHL/ Biophile Int'l Corp. v. Milgram*, 192 F.3d 1362, 1365 (Fed. Cir. 1999).
- 10 *Kloster Speedsteel AB v. Crucible Inc.*, 793 F.2d 1565, 1576 (Fed. Cir. 1986).

- 11 *Id.*; *see also Application Spoorman*, 363 F.2d 444, 448 (C.C.P.A. 1966) (“That which may be inherent is not necessarily known. Obviousness cannot be predicated on what is unknown.”).
- 12 *In re Rijckart*, 9 F.3d 1531, 1534 (Fed. Cir. 1993).
- 13 *EMI Grp. N. Am., Inc. v. Cypress Semiconductor Corp.*, 268 F.3d 1342 (Fed. Cir. 2001).
- 14 *Id.* at 1345.
- 15 *Id.*
- 16 *Id.*
- 17 *Id.* at 1351.
- 18 *Id.*
- 19 *Id.*
- 20 *In re Huai-Hung Kao*, 639 F.3d 1057 (Fed. Cir. 2011).
- 21 *Id.* at 1070 (It should be noted that the Patent Office specifically argued that inherency is part of the obviousness inquiry and the Federal Circuit agreed).
- 22 *Id.* (emphasis in original).
- 23 *See also Santarus, Inc. v. PAR Pharm., Inc.*, 694 F.3d 1344, 1354 (Fed. Cir. 2012) (The court held that blood serum levels where an inherent property of the formulation and that the claim to an obvious formulation cannot be rendered non-obvious by simply adding an inherent property (resulting serum blood concentrations) as a limitation to the claims.).
- 24 *Allergan, Inc. v. Sandoz Inc.*, 726 F.3d 1286, 1294 (Fed. Cir. 2013).
- 25 *Id.* at n.1.
- 26 *PAR Pharm., Inc. v. TWI Pharm., Inc.*, 2014 WL 6782649, at *7 (Fed. Cir. Dec. 3, 2014).
- 27 *Id.* at *6.
- 28 *Id.* at *8.
- 29 *Id.* at *6.
- 30 *Id.*
- 31 *Id.* at *7.
- 32 639 F.3d at 1070.
- 33 *Bristol-Myers Squibb Co. v. Teva Pharm. USA, Inc.*, 752 F.3d 967 (Fed. Cir. 2014).
- 34 *Id.* at 974.
- 35 *Id.*
- 36 *Id.*
- 37 When the denying the petition for rehearing/en banc consideration, multiple explanations surfaced as to why the evidence was not considered. Judge Dyk and Judge Wallace asserted that post invention evidence should not be allowed in the obviousness analysis in the circumstances of this case. Read broadly this runs contrary to the established practice of using post invention evidence to establish secondary considerations. More likely these judges are referring to the using the evidence in the establishment of a prima facie obviousness case, i.e., defining the differences between the claimed invention and the prior art. Judge O'Malley argued that the evidence was considered but considered not persuasive. Judges Newman, Laurie, Reyna and Taranto all dissented arguing that the evidence should have been considered.

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Patent Docs Blog Selected for Inclusion in the 2014 ABA Journal Blawg 100



MBHB is pleased to announce that the Patent Docs blog (www.patentdocs.org) has been selected for inclusion in the prestigious 2014 ABA Journal Blawg 100. Editors of the ABA Journal announced its eighth annual list of the 100 best legal blogs – or blawgs – following a nomination process that began earlier in 2014. MBHB partners Dr. Donald Zuhn, Jr.,

Dr. Kevin Noonan, and Dr. Andrew Williams co-author the Patent Docs weblog, and a number of MBHB practitioners contribute to the site, which focuses on recent developments in patent law. This is the third year in a row that Patent Docs has been so honored. View the 2014 ABA Journal Blawg 100 list at http://www.abajournal.com/magazine/article/8th_annual_blawg_100.

Supreme Court Holds that Issue Preclusion May Apply to TTAB Decisions

By Sydney R. Kokjohn

In a 7-2 decision authored by Justice Alito, the Supreme Court held on March 24, 2015, that issue preclusion may apply to Trademark Trial and Appeal Board (TTAB) decisions.¹ The case, *B&B Hardware, Inc. v. Hargis Industries, Inc.*, sought to determine:

Whether the TTAB's finding of a likelihood of confusion precludes Hargis from relitigating that issue in infringement litigation, in which likelihood of confusion is an element. Whether, if issue preclusion does not apply, the district court was obliged to defer to the TTAB's finding of a likelihood of confusion absent strong evidence to rebut it.²

As discussed in an earlier Snippets article,³ this case involved both an opposition before the TTAB and an infringement action in federal court. In the TTAB proceeding, the TTAB sustained B&B's opposition and denied Hargis's registration of the SEALTITE mark, concluding that the marks were "substantially identical" and "used on closely related products," thus, likely to cause confusion.⁴ However, in the infringement action, both the district court and the Eighth Circuit refused to accord a preclusive effect to the TTAB's decision on likelihood of confusion.⁵

The Supreme Court held that an agency decision, such as that of the TTAB, may be grounds for issue preclusion.⁶ As an initial matter, the Court found nothing in the Lanham Act that would forbid issue preclusion.⁷ The Court also noted that:

What matters here is that registration is not a prerequisite to an infringement action. Rather, it is a separate proceeding to decide separate rights. Neither is issue preclusion a one-way street. When a district court, as part of its judgment, decides an issue that overlaps with part of the TTAB's analysis, the TTAB gives preclusive effect to the court's judgment.⁸

In addition, the Court also rejected

arguments that issue preclusion should never be available because the TTAB applies different factors in accessing likelihood of confusion and TTAB proceedings are procedurally different than court proceedings.⁹ Finally, the Court rejected

In view of this decision, trademark practitioners should advise clients to treat TTAB proceedings with the same seriousness as federal court proceedings.

the argument that the stakes are lower in TTAB proceedings than in court actions, noting the benefits of registration.¹⁰

Ultimately, the Court held that "[s]o long as the other ordinary elements of issue preclusion are met, when the usages adjudicated by the TTAB are materially the same as those before the district court, issue preclusion should apply."¹¹

In view of this decision, trademark practitioners should advise clients to treat TTAB proceedings with the same seriousness as federal court proceedings.

Endnotes

- 1 *B&B Hardware, Inc. v. Hargis Indus., Inc.*, No. 13-352, 2015 WL 1291915, at *1 (Mar. 24, 2015).
- 2 Petition for Writ of Certiorari at i, *B&B Hardware* (No. 13-352).
- 3 Sydney R. Kokjohn, *Trademark Cases Pending Before the U.S. Supreme Court*, Snippets, Fall 2014, at 12, 12-13, available at <http://www.mbhb.com/snippets/>.
- 4 *B&B Hardware, Inc. v. Sealrite Building Fasteners*, 2007 WL 2698310, at *12 (Aug. 28, 2007).
- 5 See *B&B Hardware, Inc. v. Hargis Indus., Inc.*, 716 F.3d 1020, 1026 (8th Cir. 2013); *B&B Hardware, Inc. v. Hargis Indus., Inc.*, 736 F. Supp. 2d 1212, 1217 (E.D. Ark. 2010).
- 6 *B&B Hardware*, 2015 WL 1291915, at *1.
- 7 *Id.* at *8.
- 8 *Id.* at *9.
- 9 *Id.* at *10-13.
- 10 *Id.* at *13.
- 11 *Id.*

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“Blurred Lines” Artists Lose Multi-million Dollar Copyright Lawsuit

By Emily Miao, Ph.D. and Nicole E. Grimm

Pop artists Robin Thicke and Pharrell Williams’ “Blurred Lines” song was the most popular single in 2013, topping the U.S. and international music charts.¹ The song has sold over 6 million copies and its accompanying video has been played hundreds of millions of times on YouTube.² The song has also embroiled Thicke and Williams and others in a contentious copyright lawsuit against Marvin Gaye’s children. In a recent verdict, a California federal jury found that Thicke and Williams’ smash hit copied Marvin Gaye’s 1977 song “Got To Give It Up” and awarded Marvin Gaye’s children \$7.39 million in damages for copyright infringement.³ In a follow-up to our earlier articles,⁴ we discuss some of the issues raised in the case and what impact, if any, the decision can have on musicians who try to emulate a particular genre or another artist’s sound.

Thicke’s Pre-emptive Strike in Initiating the Lawsuit Backfires

After receiving threats of legal action from the Gaye family, accusing Thicke and Williams of infringing Marvin Gaye’s song, Thicke, together with Williams and Clifford Harris, pre-emptively filed a lawsuit on August 15, 2013, against the Gaye family, seeking a declaratory judgment action in the U.S. District Court for the Central District of California that “Blurred Lines” did not infringe Gaye’s “Got to Give It Up.”⁵ Gaye’s children, who own the copyrights on their father’s composition, countersued on October 30, 2013, also naming defendants UMG Recordings, Inc. and several of its subsidiaries, including Interscope Records, all of which allegedly played a part in manufacturing and distributing “Blurred Lines.”⁶ On October 30, 2014, the U.S. district judge denied Thicke and Williams’ Motion for Summary Judgment, however in doing so, the judge found that the sheet music of Gaye’s “Got to Give It Up” and “After the Dance” that were deposited with the U.S. Copyright Office defined the scope of the copyrighted compositions, not the sound recordings.⁷

On January 26, 2015, during the parties’ final pretrial conference and hearing on the motions *in limine*, the judge granted Thicke and

Williams’ motion to exclude the Gaye Parties from playing the sound recording of “Got to Give It Up” to the jury during trial.⁸ The judge was concerned that Gaye’s voice, backup vocals, and some of the percussion, which are elements that are not covered by the copyrighted sheet music, could sway the jury.⁹ During the trial, the jurors repeatedly heard the “Blurred Lines” song and saw portions of its associated music video but did not hear Gaye’s

Whether this case could have been decided differently had Thicke not contradicted himself during trial is debatable. However, this decision may have a chilling effect on musicians who try to emulate a particular genre or pay homage to another artist’s sound.

recorded version of “Got To Give It Up.”¹⁰ Rather, the jury heard a version constructed from the sheet music which lacked many of the musical elements of the original song, including Gaye’s voice.¹¹

After a seven-day trial and nearly two days of deliberation, the jury decided that “Blurred Lines” and “Got To Give It Up” were substantially similar, and awarded the Gaye Parties \$4 million in actual damages and \$3.38 million in profits attributable to Thicke and Williams’ infringement of “Got To Give It Up.”¹² The jury also found that Clifford Harris, Jr., a co-owner of 13% of the musical composition copyright in “Blurred Lines,” and the Interscope Parties did not infringe “Got To Give It Up.”¹³ Although the jury did not find that Thicke and Williams’ infringement of “Got To Give It Up”

was willful, they found that the infringement was not innocent.¹⁴ Regarding Gaye’s other song in dispute, “After the Dance,” the jury did not find by a preponderance of the evidence that the Thicke Parties infringed the copyright in the musical composition in their song, “Love After War.”¹⁵

Following the jury verdict, the Gaye Parties filed a Motion for Injunctive Relief to immediately prevent the Plaintiffs from “reproducing, distributing, performing, displaying, and preparing derivative works” of “Blurred Lines” and “impound any and all infringing articles containing the composition ‘Blurred Lines.’”¹⁶ Additionally, the Gaye Parties filed a Motion to correct the Jury’s Verdict requesting that the court impose liability for direct copyright infringement of the composition copyright of “Got To Give It Up” on Clifford Harris, Jr. and the Interscope Parties.¹⁷ Thicke and Williams moved to strike both of the Gaye Parties’ motions, arguing that the motions were procedurally improper.¹⁸

To resolve the remaining issues between the parties, and in accordance with the court’s orders, the parties have agreed to a schedule for filing motions that will carry this case on through at least July 2015.¹⁹ As Thicke and Williams made clear in their motion to strike the Gaye Parties’ motions, “[t]his case is far from over” and “[i]t is merely entering a new phase.”²⁰

Thicke Succeeds in Limiting the Jury to Copyrighted Sheet Music, not the Gaye sound Recording

Prior to the jury’s verdict, Thicke and Williams achieved two seemingly big wins for their case – the judge limiting the musical compositions of “Got To Give It Up” and “After the War” to the sheet music, and preventing the Gaye Parties’ from playing the sound recordings to these songs during trial. However, despite these advantages, the jury still found Thicke and Williams liable for copyright infringement of the composition of “Got To Give It Up.”

Interestingly, Marvin Gaye did not write the sheet music of his songs and did not “fluently read sheet music.”²¹ When the

musical compositions for “Got to Give It Up” and “After the Dance” were registered with the U.S. Copyright Office, Gaye deposited sheet music “representing the lyrics and *some* of the melodic, harmonic, and rhythmic features that appear in the recorded work.”²²

The Gaye Family relied on the Ninth Circuit case, *Three Boys Music Corp. v. Bolton* to argue that “the factfinder in a music copyright infringement action may consider elements that appear in the recorded version of the song as part of the ‘composition’ even if they do not appear in sheet music deposited with the Copyright Office in accordance with the 1909 Act.”²³ In *Three Boys Music Corp.*, the appellants argued that the district court did not have jurisdiction to hear the case because the Isley Brothers (holders of the copyrighted song in this case) did not register a complete copy of the song with the Copyright Office and that the sheet music did not “include the majority of the musical elements that were part of the infringement claim.”²⁴ The Ninth Circuit acknowledged that “[a]lthough the 1909 Copyright Act requires the owner to deposit a ‘complete copy’ of the work with the copyright office, our definition of a ‘complete copy’ is broad and deferential: ‘Absent intent to defraud and prejudice, inaccuracies in copyright registrations do not bar actions for infringement.’”²⁵ However, the court did not find the Gaye Parties’ reading of *Three Boys Music Corp.* to be convincing because *Three Boys Music Corp.*, according to the court, involved subject matter jurisdiction to hear the case and “not the material actually protected by the copyright.”²⁶

In finding that Gaye’s copyrighted compositions were limited to the sheet music, the court looked to *Bridgeport Music, Inc. v. UMG Recordings, Inc.*, a Sixth Circuit case. In *UMG Recordings*, the appellants argued that the jury should not have been permitted to consider elements of the sound recordings because they were not part of the sheet music.²⁷ However, the Sixth Circuit found that the sheet music for the composition in dispute was created “long after the song was composed” and “[u]ncontroverted testimony at trial established that the song was composed and recorded in the studio simultaneously, and, therefore, that the *composition was embedded in the sound recording.*”²⁸

The court distinguished *UMG Recordings*, which was brought under the Copyright Act of 1976, by noting that Marvin Gaye’s

compositions could not have been embedded in the sound recording under the Copyright Act of 1909, which governed this case, because “a sound recording is not a publication under the earlier legislation.”²⁹ Under the 1909 Act, “publication of a work with proper notice was necessary to obtain statutory copyright protection.”³⁰ The 1909 Act applies to cases, such as this one, in which the creation and publication of a work occurred before January 1, 1978.

While the court acknowledged that “the scope of [the Gaye Parties’] copyrights is not, as a matter of law, limited to the lead sheets deposited with the Copyright Office in 1976 and 1977,” the court also stated that the Gaye Parties “do not offer evidence that the copyright compositions encompass subject matter beyond the lead sheets.”³¹ Ultimately, the court relied on a combination of the law governing the case (the 1909 Copyright Act) and the Defendants’ apparent lack of evidence that the composition should comprise elements *not* found in the sheet music to limit its infringement analysis to the elements in the sheet music. However, even with this narrower assessment of the Defendants’ compositions, the court still found that genuine issues of fact existed concerning substantial similarity so as to deny summary judgment to the Thicke Parties.

The Jury relied Heavily on the Gaye family’s Expert Testimony

As discussed previously, the case would turn on the persuasiveness of contradictory reports and testimony of the expert musicologists retained by the parties. Indeed, after the verdict issued, one of the jurors admitted that the jury had put significant weight on the Gaye’s musicologist expert witness, Judith Finell, who analyzed the songs and pointed to elements from the Gaye’s song that were used in *Blurred Lines*.³² And, the “sufficient disagreement” between the parties’ experts regarding the substantial similarity of “*Blurred Lines*” and “*Got To Give It Up*” convinced the court that a genuine issue of material fact existed so as to deny summary judgement.³³

According to the Finell expert report, *Blurred Lines* included “a constellation of at least eight substantially similar features” with Gaye’s “*Got to Give it Up*”: (1) the signature phrase; (2) hooks; (3) hooks with backup vocals; (4) the core theme in “*Blurred Lines*”

and the backup hook in “*Got to Give it Up*”; (5) backup hooks; (6) bass melodies; (7) keyboard parts; and (8) unusual percussion choices.³⁴ Additionally, the report pointed out that both songs share “departures from convention such as the unusual cowbell instrumentation, omission of guitar and use of male falsetto.”³⁵ Thicke and Williams, however, noted that the musical elements that Thicke and Williams are accused of copying were not reflected in the copyrighted sheet music.³⁶

The Gaye family also retained a second expert, Ingrid Monson, whose expert report paralleled the Finell report but offered some additional analysis of the similarities and differences between the two songs.³⁷ The opinion of the second expert may have been helpful to the jury in further supporting Finell’s position.

Thicke and Williams retained musicologist Sandy Wilbur whose expert report also included a comparative analysis of the “*Blurred Lines*” and “*Got to Give It Up*” and as expected, “found no substantial similarity between the melodies, rhythms, harmonies, structures and lyrics” of the two songs.³⁸ The Wilbur expert report focused on the significant differences between the two songs and noted that many of the musical elements that Thicke and Williams were accused of infringing, such as cow bells, percussion sounds, etc., were not present in the copyrighted deposit.³⁹ Furthermore, the Wilbur expert report asserted that many of the musical elements are common elements used in many songs.⁴⁰ While Ms. Wilbur concluded that the songs were not substantially similar, her opinion was repeatedly attacked during trial.

In reaching its decision, the jury was apparently more persuaded by the evidence of the Finell report and Ms. Finell’s testimony. Thicke’s contradictory testimony and admissions regarding the creation of “*Blurred Lines*” during the trial did not help his case, casting him in an unfavorable light before the jury and no doubt influencing the jury’s verdict.⁴¹

Conclusion

Is Thicke and Williams’ “*Blurred Lines*” a product of inspiration or a derivative of Gaye’s work? The jury decided the latter. Despite Thicke and Williams’ significant success in forcing the jury to only consider the copyrighted sheet music, which lacked many of the musical

(continued on page 10)

(continued from page 9)

elements that Thicke and Williams were accused of infringing, and preventing the jury from hearing the sound recording of Gaye's music, the jury decided against them, relying heavily on the opinions of musical experts as expected.⁴² The jury found that "Blurred Lines" copied a protectable combination of elements within "Got to Give It Up," and that copyright infringement had occurred. Whether this case could have been decided differently had Thicke not contradicted himself during trial is debatable. However, this decision may have a chilling effect on musicians who try to emulate a particular genre or pay homage to another artist's sound.

Perhaps the key lesson of this case is for musicians interested in emulating a particular genre or artist's sound to seriously consider taking a license early on or hire very good experts in anticipation of litigation. Subsequent to the decision, both sides have filed motions, indicating that the legal drama is not over yet.

Endnotes

- 1 See Brian Mansfield, *2013 in Music: The Biggest Hits, the Top Albums*, USA Today (Jan. 3, 2014, 11:55 AM EST), <http://www.usatoday.com/story/life/music/2014/01/03/2013-in-music-biggest-hits-top-albums-justin-timberlake-robin-thicke/4304139/>; *Blurred Lines Becomes Biggest-Selling Single of 2013*, BBC – Newsbeat (Oct. 3, 2013), <http://www.bbc.co.uk/newsbeat/article/24380095/blurred-lines-becomes-biggest-selling-single-of-2013>
- 2 Williams v. Bridgeport Music, Inc., No. LA CIV13-06004, 2014 WL 7877773, at *2 (C.D. Cal. Oct. 30, 2014).
- 3 Special Verdict, Williams v. Bridgeport Music, Inc., No. 13-06004, Doc. #320, at 2, 4 (C.D. Cal. Feb. 10, 2015) [hereinafter "Jury Verdict"].
- 4 See Emily Miao & Nicole E. Grimm, *The Blurred Lines of Copyright Infringement of Music Becomes Even Blurrier as the Robin Thicke v. Marvin Gaye's Estate Lawsuit Continues*, 21 Westlaw J. Intellectual Prop. 1 (Apr. 2014); Emily Miao & Nicole E. Grimm, *The Blurred Lines of What Constitutes Copyright Infringement of Music: Robin Thicke v. Marvin Gaye's Estate*, 20 Westlaw J. Intellectual Prop. 15 (Nov. 2013).
- 5 Complaint for Declaratory Relief, Williams v. Bridgeport Music, Inc., No. 13-06004, Doc. # 1, at 15, 20 (C.D. Cal. Aug. 15, 2013) [hereinafter "Complaint"].

- 6 Defendants' Frankie Christian Gaye and Nona Marvise Gaye First Amended Counterclaims, Williams v. Bridgeport Music, Inc., No. 13-06004, Doc. #14, at Count 2 (C.D. Cal. Oct. 30, 2013) [hereinafter "Counterclaim"]; see also Daniel Siegal, *Thicke, Pharrell Owe \$7.4M in 'Blurred Lines' IP Fight*, Law360 (Mar. 10, 2015, 5:38 PM ET), <http://www.law360.com/articles/628694/thicke-pharrell-owe-7-4m-in-blurred-lines-ip-fight>.
- 7 Williams v. Bridgeport Music, Inc., No. LA CIV13-06004, 2014 WL 7877773, at *10 (C.D. Cal. Oct. 30, 2014). Motown Records owns the sound recordings to "Got to Give It Up" and "After The Dance." See Counter-Claimants' Request for Evidentiary Relief, A Bench Instruction, and A Supplemental Jury Instruction, Williams v. Bridgeport Music, Inc., No. 13-06004, Doc. #297, at 2 (C.D. Cal. Mar. 2, 2015). Motown Records is owned by Universal Music Group ("UMG"). See Universal Music Group, Overview, <http://www.universalmusic.com/company> (last visited Apr. 27, 2015). UMG also owns Interscope Records, a party in this lawsuit.
- 8 Civil Minutes - General, Williams v. Bridgeport Music, Inc., No. 13-06004, Doc. #226, at 1 (C.D. Cal. Jan. 26, 2015).
- 9 See Kory Grow, *Robin Thicke, Pharrell Lost Multi-Million Dollar 'Blurred Lines' Lawsuit*, RollingStone (Mar. 10, 2015), <http://www.rollingstone.com/music/news/robin-thicke-and-pharrell-lost-blurred-lines-lawsuit-20150310>.
- 10 See Pharrell Williams and Robin Thicke to pay \$7.4M to Marvin Gaye's family over Blurred Lines, The Guardian (Mar. 11, 2015, 11:35 EDT) <http://www.theguardian.com/music/2015/mar/10/blurred-lines-pharrell-robin-thicke-copied-marvin-gaye>.
- 11 *Id.*, see also Jury Instructions, Williams v. Bridgeport Music, Inc., No. 13-06004, Doc. #322, at 37 (C.D. Cal. Mar. 10, 2015) (summarizing the musical evidence heard by the jury, including "recorded versions of each work that each side has prepared based on what each side contends is shown in the deposit copy that was filed with the Copyright Office" and versions of the songs as they appear on the deposit copy played by keyboard).
- 12 See Jury Verdict, at 2. The jury found that the Williams Parties earned \$1.61 million in profits and that Robin Thicke earned \$1.77 million in profits. *Id.* The jury also awarded \$9,375.00 to the Gaye Parties in statutory damages for the infringement of "Got to Give It Up." *Id.* at 4. The jury did not find that Clifford Harris, Jr. and The Interscope Parties received any profits attributable to the infringement of the copyright in "Got to Give It Up." *Id.* at 2.
- 13 *Id.* at 1; see also Counter-Claimants' Joint Motion to Correct the Jury's Verdict, Williams v. Bridgeport Music, Inc., No. 13-06004, Doc. #345, at 2 (C.D. Cal. Mar. 17, 2015) [hereinafter "Motion to Correct Jury's Verdict"].
- 14 See Jury Verdict, at 2-3.
- 15 See *id.*, at 4-5. The "Thicke Parties" accused of infringing Gaye's "After the Dance" were Robin Thicke, Paula Maxine Patton, Geffen Records, UMG Recordings, Inc., Universal Music Distribution, and Star Trek Entertainment. *Id.* at 5.
- 16 Counter-Claimants' Joint Post-Trial Motion for Injunctive Relief, Williams v. Bridgeport Music, Inc., No. 13-06004, Doc. #346, at 2 (C.D. Cal. Mar. 17, 2015).
- 17 See Motion to Correct Jury's Verdict, at 1. The Gaye Parties argued that "all members of the distribution chain are liable for copyright infringement, including co-writer of the song 'Blurred Lines' Clifford Harris, Jr. and the Interscope Parties, who manufactured, licensed, distributed, and sold the infringing song...." *Id.*
- 18 Plaintiff and Counter-Defendants' Motion to Strike Counter-Claimants' Motion to Correct the Verdict and For Injunctive Relief and Request for a Status Conference to Set a Briefing Schedule for all Post-Trial Motions; Memorandum of Points and Authorities, Williams v. Bridgeport Music, Inc., No. 13-06004, Doc. #356, at 1 (C.D. Cal. Mar. 19, 2015) [hereinafter "Plaintiffs' Motion to Strike"].
- 19 Joint Report Pursuant to the Court's March 20, 2015 Order (Dkt. 360), Williams v. Bridgeport Music, Inc., No. 13-06004, Doc. #356, at 1 (C.D. Cal. Mar. 27, 2015).
- 20 Plaintiffs' Motion to Strike at 5.
- 21 Williams v. Bridgeport Music, Inc., No. LA CIV13-06004, 2014 WL 7877773, at *2 (C.D. Cal. Oct. 30, 2014).
- 22 *Id.* (emphasis added).
- 23 *Id.* at *9.
- 24 212 F.3d 477, 486 (9th Cir. 2000). However, the Isley Brothers' expert in the *Three Boys Music Corp.* case testified at trial that the deposit copy

"included all of the song's essential elements such as the title, hook, chorus, and pitches" and even played the deposit copy on a keyboard for the jury. *Id.* Unlike the Isley Brothers' expert, the expert for the Gaye family opined that it would be "musically misleading" to limit the composition of "Got to Give It Up" and "After the Dance" to the copyright deposit copies. 2014 WL 7877773, at *4.

- 25 212 F.3d at 486 (quoting Harris v. Emmus Records Corp., 734 F.2d 1329, 1335 (9th Cir. 1984)).
- 26 Williams, 2014 WL 7877773 at *9.
- 27 585 F.3d 267, 276 (6th Cir. 2009).
- 28 *Id.* (emphasis added).
- 29 2014 WL 7877773, at *10.
- 30 *Id.* at *8.
- 31 *Id.* at *9.
- 32 See Siegal, *supra* note 6.
- 33 Williams, 2014 WL 7877773, at *20.
- 34 Counterclaim, Expert report at ¶ 43.
- 35 *Id.*
- 36 Plaintiff and Counter-Defendants' Notice of Motion and Motion for Summary Judgment or, in the Alternative, Partial Summary Judgment; Memorandum of Points and Authorities, Williams v. Bridgeport Music, Inc., No. 13-06004, Doc. #89, at 1 (C.D. Cal. Mar. 27, 2015).
- 37 Williams, 2014 WL 7877773, at *4.
- 38 *Id.* at *3.
- 39 *Id.*
- 40 *Id.* at *15.
- 41 See Charlotte Alter, *Robin Thicke Admits He Didn't Really Write 'Blurred Lines,' Was High in the Studio*, Time (Sept. 15, 2014), <http://time.com/3378763/robin-thicke-blurred-lines-lawsuit-pharrell-drugs/>. However, as the court noted, "Thicke's inconsistent statements do not constitute direct evidence of copying." Williams, 2014 WL 7877773, at *11.
- 42 See Miao & Grimm 2014, *supra* note 4.

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Software Patents Are Still Very Useful Despite *Alice*, But Are Business Method Patents?

By Joseph A. Herndon and Alexander D. Georges

Patents generally describe new inventions in terms of a unique structure, function, or combination of structure and function. Those patents that focus on functions of computers or computer-implemented functionality are often referred to as “software patents” since no new structure has been invented. It is often the case that the novelty resides in new functionality that may be executed by any conventional computing device. Another category of patents referred to as “business method patents” are similar in that they do not attempt to cover any new structure of an invention, but rather purport to describe new methods of doing business, including hedging, financial investments, e-commerce, etc.

The recent interpretation of patent eligible subject matter under 35 U.S.C. § 101 by the Supreme Court in *Alice v. CLS Bank* in June 2014 has caused confusion in the patent world regarding the validity and practicality of software and business method patents.¹ In *Alice*, the Supreme Court held that claims directed towards a computer-implemented means of mitigating settlement risk by using a third-party intermediary did not qualify as eligible subject matter.²

Overview of Section § 101 Analysis

In their analysis of the claims at issue, the Supreme Court in *Alice* extended a two-part test originally presented in *Mayo* to determine the patent eligibility of the claims at issue.³ The *Mayo/Alice* test requires a court to first determine whether a claimed invention is directed to a patent-ineligible concept. Abstract ideas, laws of nature, and mathematical equations have been held to fall under the ineligible concept category.⁴ Second, if a claim is directed to a patent-ineligible concept, the claim can still satisfy Section 101 if it does “significantly more” than merely describe and apply an abstract idea.⁵

During the application of the *Mayo/Alice* test, a court must discount “well-

understood, routine, conventional activities previously known to the industry,” and should consider whether a claim unduly preempts too broad a category of innovation given the degree of detail within the claims since specific limitations may demonstrate a limited application of the concept.⁶ Further, the court should consider if the claims improve technology by using the abstract

Seeing as the law is changing as each new decision is handed down by the Federal Circuit, it is probably best to avoid making dramatic changes in claiming strategies or patent portfolio assessment, since such changes may become inconsistent or contradictory to positions of the courts down the road.

idea (or another patent-ineligible concept such as a mathematical formula) in a tangible and useful way.⁷ Ultimately, the *Alice* Court held that the claims directed to merely implementing an abstract idea on a generic computer failed to “transform that abstract idea into a patent-eligible invention.”⁸ The Court, however, did also offer that “many computer-implemented claims are formally addressed to patent-eligible subject matter” including claims which “improve the functioning of the computer itself” or “any other technology.”⁹

Post-*Alice* Software Claims Analysis

In the relatively short time since the holding of *Alice*, many decisions by the Federal Circuit have resulted in the invalidation of software patents for failure to recite eligible subject matter under Section 101. For instance, claims directed towards methods for conducting reliable transactions in an e-commerce environment were found to recite ineligible subject matter under Section 101.¹⁰ Similarly, claims providing a “method for distributing copyrighted media products over the Internet where the consumer receives a copyrighted media product at no cost in exchange for viewing an advertisement, and the advertiser pays for the copyrighted content” were found to be directed to the abstract idea of using “an advertisement as an exchange or currency” without further limitations in the claims that would transform the abstract idea into patent-eligible subject matter.¹¹ The Federal Circuit held that 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” to the abstract idea did not transform the claims into patentable subject matter.¹²

Conversely, there are some success stories. Application of the *Mayo/Alice* test has resulted in the Federal Circuit finding some software patents valid under Section 101. In *DDR Holdings*, the Federal Circuit found that claims directed towards a system and method of generating a composite web page that combined certain visual elements of a “host” website with content of a third-party merchant “clear[ed] the 101 hurdle.”¹³ The Federal Circuit reasoned that the claims “do not recite a mathematical algorithm... [nor do they] recite a fundamental economic or longstanding commercial practice.”¹⁴ Instead, “the claims address a business challenge (retaining website visitors)... [that is] particular to the Internet” and is “necessarily rooted in computer technology in order to overcome a problem specifically arising in the realm of computer networks.”¹⁵ As such, the Federal

(continued on page 12)

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Circuit concluded that regardless of the claims reciting an abstract idea, here the claims also recited significantly more than just the abstract idea itself as required by the second prong of the *Mayo/Alice* test.¹⁶

Overall, as shown in the cases above, the application of the *Mayo/Alice* test does not yield predictable results. The Federal Circuit will soon have additional opportunities to further refine its guidance for lower courts to follow when applying the *Mayo/Alice* test to determine eligibility of software claims under Section 101. In a likely appeal coming from the Eastern District of Texas, the Federal Circuit may have a chance to review a judgment against Apple, Inc. (“Apple”) for over \$500 million in damages to Smartflash LLC (“Smartflash”) for infringing multiple software patents owned and asserted by Smartflash.¹⁷ An important aspect of the appeal would require the Federal Circuit to review whether the asserted patents claim eligible subject matter according to the Section 101 interpretation in *Alice*.

The software patents at the center of this Apple litigation “relate generally to data storage and access systems for paying for and downloading digital content such as audio, video, text, software, games, and other types of data.”¹⁸ As an example of the asserted claims, claim 32 from U.S. Patent No. 8,118,221 claims a data access terminal configured to receive data from a supplier and provide the data to a carrier via allegedly novel software features, including “code to read payment data from the data carrier and to forward the payment data to a payment validation system,” and “code responsive to the payment validation . . . specifying at least one condition for accessing the retrieved data . . . [with] the at least one condition being dependent upon the amount of payment.”¹⁹ Smartflash asserted the patents contending that Apple’s iTunes, the App Store, and any Apple device having access to iTunes or the App Store infringed multiple claims of the asserted patents.

Initially, Apple moved for summary judgment contending that the patent claims were directed to abstract ideas for “long-familiar commercial transactions” and relationships that are not eligible subject matter under Section 101.²⁰ Among other arguments, Apple contended that limiting the claims to the ideas of payment for data and controlling access to data are field of use limitations that

fail to transform the abstract ideas into patent eligible inventions.²¹ Apple further submitted that the claimed functional hardware failed to add anything significant to the abstract idea and that the claims fail the machine-or-transformation test.²²

Smartflash responded by arguing that the claimed inventions are not directed towards abstract ideas, but rather towards particular devices with payment capabilities for digital content, access control capabilities for stored digital content, and in some claims, to particular control access capabilities based on particular payment.²³ Smartflash also pointed out that preemption does not exist since non-infringing alternatives are practiced by others, and that the

The recent interpretation of patent eligible subject matter under 35 U.S.C. § 101 by the Supreme Court in *Alice v. CLS Bank* in June 2014 has caused confusion in the patent world regarding the validity and practicality of software and business method patents.

claims are tied to a particular machine that does in fact transform data.²⁴ Additionally, Smartflash indicated that the data-storage limitations are not generic computer limitations due to specific capabilities that ensure digital content is appropriately distinguished from other generic data, and the claims recite patent-eligible subject matter when analyzed as a whole.²⁵ Smartflash also distinguished their patents from the asserted patents in *Alice* and *Bilski* by arguing that their claims solve a computer-specific problem rather than simply implementing a business method on a computer.²⁶

In brief, the district court denied Apple’s motion by applying the *Mayo/Alice* test.²⁷ The court rejected Apple’s argument indicating that Apple over-generalized the claims into

“payment for something” and “controlling access to something” generalizations without pointing out the flaws within the actual claims.²⁸ Comparing the case to *DDR Holdings*, the court reasoned that Smartflash’s patents do not simply apply a known business practice from the pre-Internet world to computers or the Internet, but aim to prevent piracy, unauthorized reproduction and access to digital media while also allowing access to be nearly instantaneous and the storage to be permanent.²⁹ The court further held that “[t]he patents also address the unique problem of controlling a user’s access to data that the user already possesses by tracking use data and restricting access according to use rules.”³⁰ Nonetheless, the Federal Circuit will have an opportunity to confirm or correct the district court’s application of the *Mayo/Alice* test.

In another potential opportunity to provide guidance for applying the *Mayo/Alice* test, the Federal Circuit will also review an appeal of the *McRO, Inc., v. Activision Publishing, Inc* case decided by the Central District of California.³¹ At the district level, McRO asserted software patents having technology directed towards “automated rules-based use of morph targets and delta sets for lip-synchronized three-dimensional animation.”³² At a high level, the technology generally involves creating rules to define weights for configuring animated lips based on timed phonemes, automatically determining a sequencing of the new phonemes based on an audio sequence, and applying the rules to the determined sequence to create the animated lips.³³ During its application of the *Mayo/Alice* test, the district court stated that “[f]acially, these claims do not seem directed to an abstract idea. They are tangible, each covering an approach to automated three-dimensional computer animation, which is a specific technological process.”³⁴ However, despite the narrow patent scope, the court failed to find the claims valid under Section 101 and insisted that the claims need to be viewed outside a vacuum. As a result, the court determined that the novel aspect of the claims, the application of rules to the determined phonemes, qualifies as an abstract idea.³⁵ In particular, the court found that “while tangible, the steps of (1) using a timed phoneme transcript, (2) setting morph weight sets at keyframes, or (3) interpolating between keyframes, are not ‘inventive steps’ that could transform the claims herein into patent eligible subject matter, if those claims are directed to an abstract idea.”³⁶

Holding the claims invalid under Section 101, the court concluded that “while the patents do not preempt the field of automatic lip synchronization for computer-generated 3D animation, they do preempt the field of such lip synchronization using a rules-based morph target approach.”³⁷ On appeal, it will be interesting to see if the Federal Circuit reaches a different conclusion than the district court finding that the claims are directed to a tangible concept rather than only an abstract idea and not continuing its analysis under the second prong of *Mayo/Alice* as a result.

While the predictability of application of *Alice* to software patents is confusing at best, seeing a \$500+ million judgement based on software patents is great incentive for continuing pursuit of software patent portfolios. Keys for successful claim drafting are being developed in real time as each new Federal Circuit decision is made. An overwhelming trend seems to be that some specific limitation, other than what is considered well-understood, routine and conventional in the field, is required to survive a Section 101 challenge. Such trends are seen within the guidance recently offered by the U.S. Patent Office,³⁸ in which the USPTO offered suggestions on limitations that may be enough to qualify as “significantly more” when recited in a claim directed to a judicial exception.

Post-*Alice* Business Method Claims Analysis

Business method claims have had less luck than software claims after the Supreme Court’s *Alice* decision. Most business method claims reviewed by the Federal Circuit are found invalid under Section 101 for merely reciting an abstract idea. As an example of business method claims found valid under Section 101 post-*Alice*, we have to turn to the Patent Trial and Appeal Board (“PTAB”), which recently found valid business method claims directed towards a method for processing paper checks in *U.S. Bancorp v. Solutran, Inc.*³⁹ During the review, the PTAB examined each claim as a whole finding that the method for processing paper checks “is more akin to a physical process than an abstract idea.”⁴⁰ The PTAB reasoned that limitations, such as “receiving said paper checks and scanning said checks with a digital scanner,” and “comparing by a computer said digital images,” cause the claim as a whole to recite patent-eligible subject matter rather than merely an attempt

to claim “fundamental economic practices, mathematical algorithms, or basic tools of scientific and technological work.”⁴¹ Reasoning that the claims were not directed towards an abstract idea, the PTAB did not analyze the claims under the second prong of the *Alice/Mayo* test.

Here, the claims at issue are more akin to “hybrid business method claims” in that physical components (e.g., a digital scanner) are recited. Thus, the claims are not pure business method claims reciting only techniques for doing business conceptually. This provided support for the PTAB to conclude that the method is “more akin to a physical process.”⁴² Whether such claims would survive a Section 101 challenge in a federal court is a separate issue. But, seeing that we do not have a recent (post-*Alice*) ideal example from the Federal Circuit of a true business method patent claim that satisfies Section 101, nor has the U.S. Patent Office offered any specific guidance (the *Interim Guidance on Subject Matter Eligibility* is devoid of any business method patent claim examples), the future of business method patents seems bleak, at best. In fact, the America Invents Act (AIA) set up a provision specifically for challenging such so-called business method patents, which is one of the few places that some guidance is given, albeit, for invalidating a business method patent.⁴³ There is no guidance, however, for how a business method patent can satisfy § 101, and so the general guidance above given for software patents is likely to be applied.

The Future?

Seeing as the law is changing as each new decision is handed down by the Federal Circuit, it is probably best to avoid making dramatic changes in claiming strategies or patent portfolio assessment, since such changes may become inconsistent or contradictory to positions of the courts down the road. Over time, we can expect the courts (and patent examiners) to provide further decisions useful for concrete guidance on software and business method strategies.

Endnotes

- 1 *Alice Corp. Pty. Ltd. v. CLS Bank Intern.*, 134 S.Ct. 2347 (2014); 35 U.S.C. § 101 (“Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title”).
- 2 *See id.* at 2352.
- 3 *See Mayo Collaborative Services v. Prometheus Laboratories, Inc.*, 132 S.Ct. 1289, 1293 (2014).
- 4 *See id.* at 1293 (“[l]aws of nature, natural phenomena, and abstract ideas” are not patent eligible “to prevent the ‘monopolization’ of the ‘basic tools of scientific and technological work,’ which ‘might tend to impede

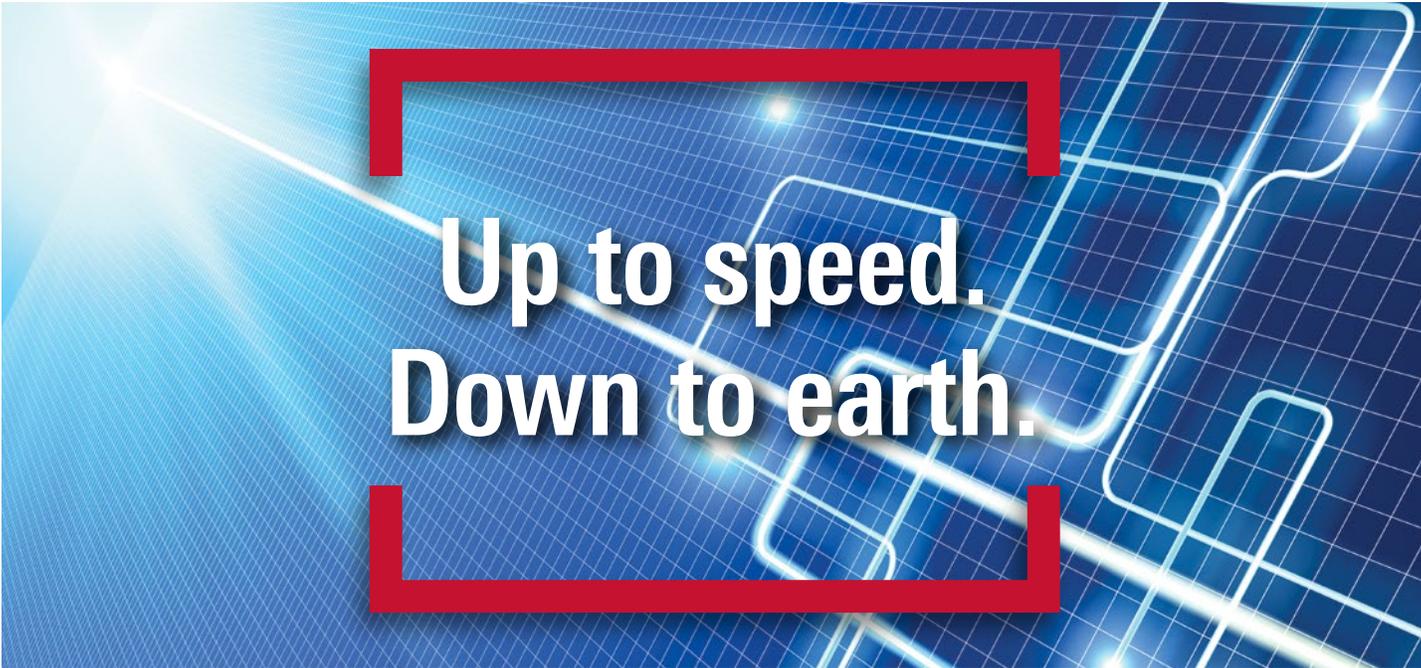
innovation more than it would tend to promote it.”).

- 5 *Alice Corp.*, 134 S. Ct. at 2357.
- 6 *Id.* at 2359-60.
- 7 *Id.*
- 8 *Id.* at 2358-60 (“[M]ere recitation of a generic computer cannot transform a patent ineligible abstract idea into a patent-eligible invention”).
- 9 *Id.* at 2359.
- 10 *See Interim Guidance on Subject Matter Eligibility Examples*, available at www.uspto.gov/patents/law/exam/abstract_idea_examples.pdf (noting that in *buySAFE, Inc. v. Google Inc.*, 765 F.3d 1350 (Fed. Cir. 2014), the court found that “the steps of creating a contract, including receiving a request for a performance guaranty (contract), processing the request by underwriting to provide a performance guaranty and offering the performance guaranty” encompass an abstract idea with further limitations of a computer failing to amount to more than the abstract idea itself).
- 11 *Ultramerical Inc. v. Hulu, LLC.*, 772 F.3d 1335 at 712, 712-715 (Fed. Cir. 2013).
- 12 *Id.* at 716.
- 13 *DDR Holdings, LLC v. Hotels.com, L.P.*, 773 F.3d 1245, 1255 (Fed. Cir. 2014).
- 14 *Id.* at 1257.
- 15 *Id.*
- 16 *Id.*
- 17 *See Smartflash LLC v. Apple Inc.*, 6:13CV447-JRG-KNM, 2015 WL 661174, at *1 (E.D. Tex. Feb. 13, 2015).
- 18 *Id.*; (U.S. Patent No. 7,334,720; U.S. Patent No. 7,942,317; U.S. Patent No. 8,033,458; U.S. Patent No. 8,061,598; U.S. Patent No. 8,118,221; and U.S. Patent No. 8,336,772).
- 19 *Smartflash LLC*, 2015 WL 661174 at *2; U.S. Patent No. 8,118,221.
- 20 *Smartflash LLC*, 2015 WL 661174 at *6.
- 21 *Id.*
- 22 *Id.*
- 23 *Id.*
- 24 *Id.* at *7.
- 25 *Id.*; *see Diamond v. Diehr*, 450 U.S. 175, 191 (1981) (an application of a law of nature or mathematical formula to a known structure or process may well be deserving of patent protection).
- 26 *Smartflash LLC*, 2015 WL 661174 at *6; *see also Bilski v. Kappos*, 561 U.S. 593, 614 (2010) (implementing a known business method by executing the method on a generic computer does not qualify as patentable subject matter).
- 27 *Smartflash LLC*, 2015 WL 661174 at *9 (finding that the inventions’ general purposes of “conditioning and controlling access to data based on payment” is an abstract and fundamental building block of the economy in the digital age, but did determine that the claims recite meaningful limitations (e.g., specific ways of using distinct memories, data types, and use rules) that transform the abstract idea into a patent-eligible invention).
- 28 *Id.* at *8.
- 29 *Id.*
- 30 *Id.* at *9.
- 31 *McRO, Inc. v. Activision Pub., Inc.*, 2014 WL 4759953 (C.D. Cal. Sept. 22, 2014).
- 32 *Id.* at *10; U.S. Patent No. 6,307,575; U.S. Patent No. 6,611,278.
- 33 *McRO, Inc.*, 2014 WL 4759953 at *10.
- 34 *Id.* at *8.
- 35 *Id.* at *9.
- 36 *Id.*
- 37 *Id.* at *11.
- 38 *See Interim Guidance on Subject Matter Eligibility Examples*, supra note 10.
- 39 *U.S. Bancorp, Petr.*, CBM2014-00076, 2014 WL 3943913, at *8 (Patent Tr. & App. Bd. Aug. 7, 2014).
- 40 *Id.*
- 41 *Id.* at *9.
- 42 *Id.*
- 43 *See AIA § 18(d)(1)* (a transitional post-grant review proceeding for review of the validity of covered business method patent in which a “covered business method patent” is a patent that “claims a method or corresponding apparatus for performing data processing or other operations used in the practice, administration, or management of a financial product or service, except that the term does not include patents for technological inventions”).

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