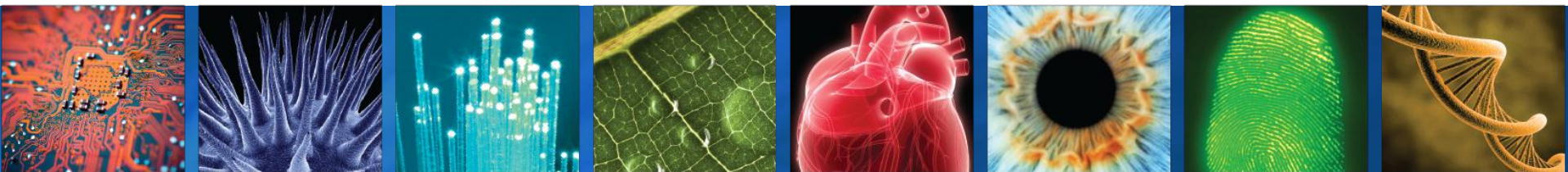


Protecting and Enforcing your High Technology Intellectual Property

April 17, 2014 | 9:00 a.m. PST

Panelists: Mike Fuller, Bridget Smith,
Mark Lezama, Derek Bayles



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- **Any discussions are based solely upon non-confidential information you may provide. It is our understanding that you will not provide us with any confidential information and will not do so until representation is initiated.**

Bridget Smith



- Bridget A. Smith is a partner in our Orange County office.
- Ms. Smith specializes in patent protection and other forms for intellectual property protection in the semiconductor, computer, chemical, medical device, and healthcare fields
- Registered to practice before the U.S. Patent and Trademark Office.
- Ms. Smith has represented clients in patent infringement cases and in post-grant patent invalidity proceedings.

Mark Lezama



- Mark Lezama is a litigation partner in our Orange County office specializing in patent disputes.
- He also counsels on patent-portfolio strategy, patent-infringement and validity assessments, and licensing transactions.
- Owing to his strong background in mathematics and computer science, Mr. Lezama's practice encompasses a wide variety of technologies, including such diverse fields as computer networks, cryptography, optics, pulse oximetry, thermoelectrics, internal-combustion engines, and wellbore-surveying techniques.

Derek Bayles



- Derek Bayles is a partner in our Orange County office.
- He assists clients with strategic patent preparation and prosecution in a variety of technological fields.
- Derek also assists clients with intellectual property due diligence, patent invalidity and non-infringement opinions, licensing, and inter-partes disputes at the USPTO.
- Prior to joining the firm, Mr. Bayles worked at Intel Corp., BAE Systems, and Paloverde Nuclear Generating Station. In these positions he worked on the design and testing of a wide variety of digital, analog, and RF electronic circuits for applications both on land and in space.

BRIDGET SMITH

Software Patents Issues in the USPTO

- **Functional claiming**
- **Covered business method review, one year in**

Functional Claiming in Software Patents

White House Speaks on Functional Claiming

For Immediate Release

June 04, 2013

FACT SHEET: White House Task Force on High-Tech Patent Issues

LEGISLATIVE PRIORITIES & EXECUTIVE ACTIONS

- 2. Tightening Functional Claiming.** The AIA made important improvements to the examination process and overall patent quality, but stakeholders remain concerned about patents with overly broad claims — particularly in the context of software. The PTO will provide new targeted training to its examiners on scrutiny of functional claims and will, over the next six months develop strategies to improve claim clarity, such as by use of glossaries in patent specifications to assist examiners in the software field.

Functional Claiming in Software Patents

- U.S. patent law explicitly provides for “pure” functional limitations
- 35 U.S.C. § 112(f): An element in a claim . . . may be expressed as a means or step for performing a specified function without the recital of structure, material, or acts in support thereof, and **such claim shall be construed to cover the corresponding structure, material, or acts described in the specification and equivalents thereof.**
- If not adequately supported by corresponding structure in specification, claim is indefinite

Function Media, LLC v. Google, Inc., 708 F.3d 1310, 1319 (Fed. Cir. 2013)

Increasingly Unpopular Strategy

**Means Plus Function Claiming:
Percent of Patent Applications with "Means For" in Claimset**



Some Reasons to Buck the Trend

- Equivalence is a question of fact
 - Scope of claim will be in doubt until fact finder (jury) decides equivalence
 - Avoid summary judgment of non-infringement
 - **Get to trial**
- Other countries do not have 35 U.S.C. 112(f)
- May not have a choice

Plan Ahead, Avoid Indefiniteness

- **Specification must clearly link function to structure**

Saffran v. Johnson & Johnson, 712 F.3d 549 (Fed. Cir. 2013)

- **Structure is usually algorithm that carries out function**

Aristocrat Techs. Austral. Pty Ltd. v. Int'l Game Tech., 521 F.3d 1328 (Fed. Cir. 2008)

- Mathematical formula, prose, flow chart, psuedo-code
- Must be specific, cannot parrot the function in the claim
- Narrow exception: if any computer can carry out function, structure can be a general purpose computer

In re Katz Interactive Call Processing Patent Litig., 639 F.3d 1303 (Fed. Cir. 2011)

- **Algorithm must be complete and clear to unskilled person**

Function Media, LLC v. Google, Inc., 708 F.3d 1310 (Fed. Cir. 2013)

Example of Function and Algorithm

- **Claim:** “Means for cross-referencing”
- **Specification:** “*Cross-referencing entails...*”
 - data entry,
 - storage of the data in memory,
 - searching a library of possible responses,
 - determining if a match exists, and
 - reporting an action if a match is found

Typhoon Touch Techs., Inc. v. Dell, Inc., 659 F.3d 1376 (Fed. Cir. 2011)

Conclusion

- ✓ **DO** plan ahead with an eye for means-plus-function claims in portfolio
- ✓ **DO** ensure specification clearly links the function to a detailed algorithm
- ✓ **DO** use these terms sparingly and strategically
 - ✗ **DON'T** include in every claim
 - ✗ **DON'T** include in each limitation
 - ✓ **DO** focus on the “gee whiz” of the invention
- ✓ **DO** use structural components for common portions of claims (receiver, transmitter, storage)

Covered Business Method (CBM) Review

What is CBM Review?

- Challenge validity of business method patents under § § 101, 102, 103, and/or 112
- Filed by party sued with infringement or that has standing to sue for declaratory judgment
- Adversarial trial conducted by PTAB
- Patent owner and accused infringer fully participate
- File any time post-grant review is not available

What is a CBM Patent?

- Method or apparatus for performing data processing or other operations for financial product or service
- Excludes patents for “technological inventions”
 - Recites technological feature
 - Solves technical problem using technical solution
 - Examples : hedging machine for hedging risk in commodities trading, credit card reader, Progressive Auto Insurance Snapshot®
 - All claims must qualify for technological-invention exception to avoid classification as CBM patent

PTAB Defines “Financial” Broadly

- **Financial means relating to money matters**

SAP Am., Inc. v. Versata Dev. Group, Inc., No. CBM2012-00001,
2013 WL 5947661 (P.T.A.B. Jan. 9, 2013)

- **Patent is related to activities that are financial in nature or incidental to or complementary to financial activity**

SAP Am.

- **Claims can be performed by a financial institution and patent refers to a financial institution in written description or a claim**

CRS Advanced Techs., Inc. v. Frontline Techs., Inc., 109 U.S.P.Q.2d (BNA) 1495 (P.T.A.B. 2013)

PTAB Defines “Technological” Narrowly

- All claims must have a technological feature to qualify for exception
 - Specialized hardware (sensor)
 - Novel software tool or graphical user interface
- Feature cannot be generic technology
- Mere fact that a claim can be performed by a computer does not make it a technological invention
- If even one claim lacks technological feature, the entire patent is eligible for CBM review

SAP Am.

Liberty Mut. Ins. Co. v. Progressive Cas. Ins. Co., 109 U.S.P.Q.2d (BNA) 1833 (P.T.A.B. 2014)

CBM Review – By the Numbers

Total number of requests submitted	156
Number of decisions on institution	65
CBM review instituted	85%
Settlements	13
Number of decisions on merits	11
Requested claims going to trial	100%
Grounds instituted	43%
Percent of claims invalidated	100%
Time from filing to decision on merits	1.3 years

Conclusion

- **If sued or charged with infringement of financial patent, consider litigating in PTAB**
 - PTAB is taking a broader-than-expected interpretation of which patents are eligible
 - Patents related to money, spending, purchasing, pricing, credit, banking, or financial institutions will likely qualify
- **If CBM review is a concern as a patent owner,**
 - write application without indicating that invention relates to a feature that is complementary to a financial product or service
 - include specialized hardware or another technological feature in every claim

MARK LEZAMA

Will the Supreme Court kill all software patents this term?

Alice Corp. v. CLS Bank Int'l

Procedural History

- District court grants summary judgment that 208 of Alice's patent claims are ineligible for patent protection under § 101

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Procedural History

- District court grants summary judgment that 208 of Alice's patent claims are ineligible for patent protection under § 101
- ~~Federal Circuit panel reverses (2-1), finding all claims patent eligible~~
- Federal Circuit decides to rehear en banc

Rehearing En Banc

- End result: Federal Circuit affirmed that all claims were not eligible for patenting

Exceptions to Patent Eligibility

- Natural phenomena
- Laws of nature
- Abstract ideas

Exceptions to Patent Eligibility

- Natural phenomena
- Laws of nature
- **Abstract ideas**

Bilski (2010)

- Claimed methods would have preempted for all practical purposes the “abstract idea” of hedging
- Result: none of the claims was eligible for patent protection

Alice's Patents

- Four patents directed to a computerized trading platform that eliminates “settlement risk” in financial transactions

1. A data processing system to enable the exchange of an obligation between parties, the system comprising:

a first party device,

a data storage unit having stored therein

(a) information about a first account for a first party, independent from a second account maintained by a first exchange institution, and

(b) information about a third account for a second party, independent from a fourth account maintained by a second exchange institution;

and a computer, coupled to said data storage unit, that is configured to

(a) receive a transaction from said first party device;

(b) electronically adjust said first account and said third account in order to effect an exchange obligation arising from said transaction between said first party and said second party after ensuring that said first party and/or said second party have adequate value in said first account and/or said third account, respectively; and

(c) generate an instruction to said first exchange institution and/or said second exchange institution to adjust said second account and/or said fourth account in accordance with the adjustment of said first account and/or said third account, wherein said instruction being an irrevocable, time invariant obligation placed on said first exchange institution and/or said second exchange institution.

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**a computer configured
to (a) track whether
accounts have enough
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A system comprising:

**a data storage unit
storing information about
the parties' accounts;**

**a computer configured
to (a) track whether
accounts have enough
value to complete
transaction, and if so, (b)
generate instruction to
financial institutions to
adjust parties' accounts.**

Arguments for Eligibility

- Claims require “shadow accounts”; “chronological order”; instructions to banks at end of day
- Meaningful limitations → claims are not improperly preemptive

Arguments for Ineligibility

- Limitations not meaningful; necessary for any escrowed transaction
- Like in *Bilski*:
 - The broader claims would preempt abstract idea: use of third-party escrow
 - Remaining claims simply preempt this abstract idea in a particular field of use or add only token postsolution activity

Rehearing En Banc

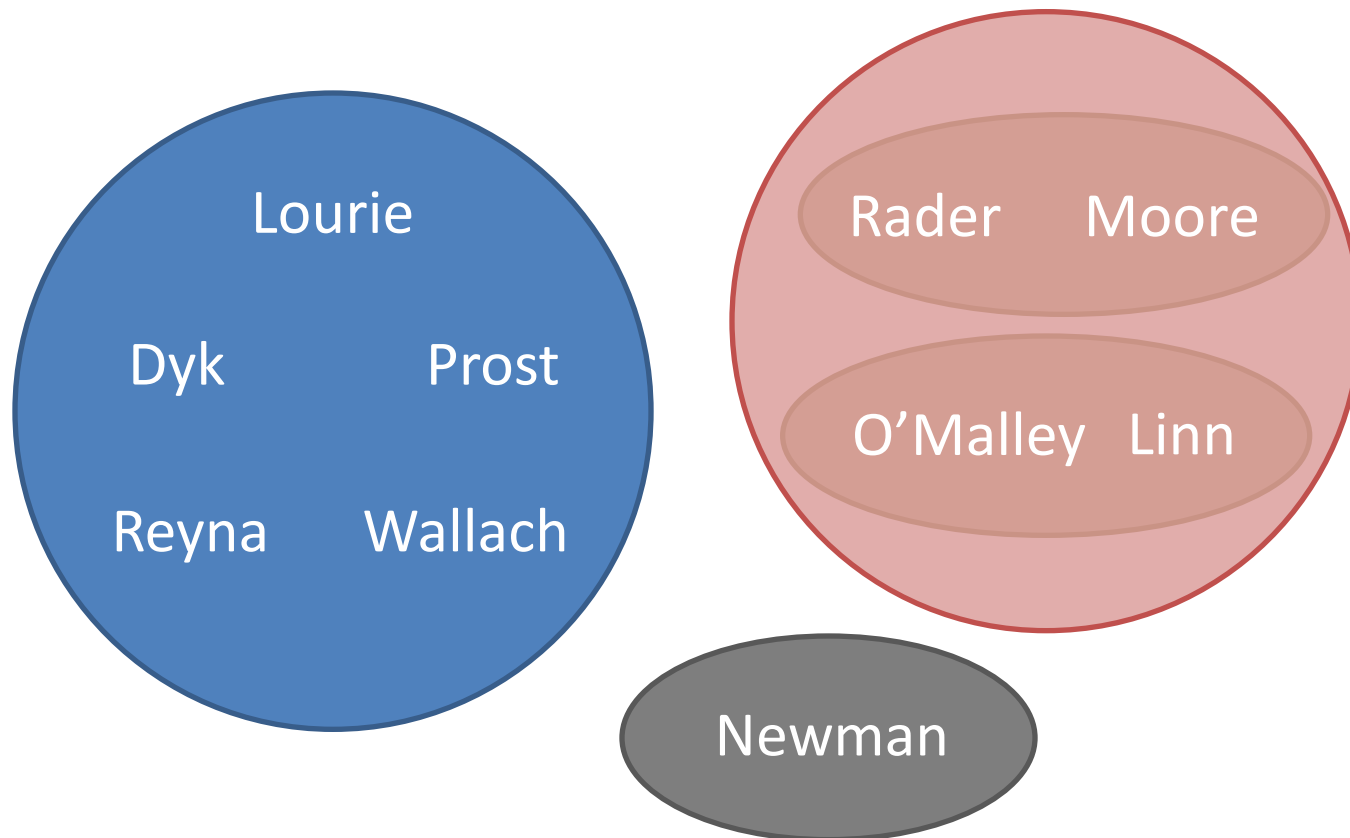
- End result: Federal Circuit affirmed that all claims were not eligible for patenting
 - Method & computer-readable media claims: ineligible 7–3
 - System claims: 5–5

Main Question on Rehearing En Banc

How do we determine whether a computer-implemented invention is an “abstract idea,” which is patent ineligible, or a practical application of an idea, which is patent eligible?

Too Many Answers

- Six different opinions; none commanding majority



Supreme Court

- **Granted certiorari in December 2013**
- **Unpredictable application of “abstract idea” exception will hinder business decisions regarding innovation, especially in computer-based fields**
- **Heard oral argument on March 31**

Supreme Court: Predictions

Will Alice's claims survive?

Supreme Court Oral Argument

Mr. Phillips, . . . you know that the *Bilski* case held that hedging qualified as an abstract idea. So how is intermediate[d] settlement a less abstract [idea] than hedging?



Justice Ginsburg

Will Alice's claims survive?

- Probably not
- Ginsburg, Kennedy, Breyer, Sotomayor, and Kagan seem to agree that claims are drawn to an abstract idea
- Almost zero discussion of system vs. method claims

Will the Court kill software patents?

Supreme Court Oral Argument

Do you think we have to reach the patentability of software to answer this case?



Justice Sotomayor

Will the Court kill software patents?

- Unlikely
 - Not likely to rule generally
- However, broad claims are likely to be targeted by defendants
- As always, continuations will be key

Will business methods be affected?

Will business methods be affected?

- Court is unlikely to rule they are ineligible per se
- But in practice, Court's ruling likely to underscore the difficulty of getting broad business-method claims

**Will it be easier to tell when
computer-implemented inventions
are patent eligible?**

Will the Court clarify the standard?

- Will probably explicitly hold that mere use of computer is not enough to confer patent eligibility
- Drafting as system vs. method vs. computer-readable media is unlikely to make a difference
- Most justices acknowledge that greater clarity is needed to distinguish eligible computer-based inventions from ineligible ones
 - But unclear whether a majority will agree on a test

When can we expect a decision?

Best guess: June 2014.

DEREK BAYLES

DRAFT PATENT LEGISLATION UPDATE

Draft Patent Legislation Update

- Patent Transparency and Improvements Act (S. 1720)
- Patent Quality Improvement Act (S. 866)
- Patent Litigation Integrity Act (S. 1612)
- Patent Abuse Reduction Act (S. 1013)
- Saving High-Tech Innovators from Egregious Legal Disputes Act (H.R. 845)
- Etc.

Key Features of Draft Legislation

- Fee shifting to losers in patent litigation
- Fee shifting to non-practicing entities
- Protections for customers of accused patent infringers
- Regulation of cease and desist letters
- Encouragement of usage of post-grant procedures for challenging patent validity
- Revisions to patent litigation procedures

Fee Shifting in General

- Hot topic of debate in Congress
- Various competing provisions:
 - Option #1: Default is that loser of patent litigation pays winner's attorney fees
 - Could have chilling effect on patent litigation, particularly harming smaller entities
 - Could result in litigation gamesmanship strategies to encourage settlement by running up fees
 - Option #2: Loser pays winner's attorney fees if loser did not behave in "objectively reasonable fashion"
- Plaintiff may be required to post pre-trial bond

Fee Shifting to Non-Practicing Entities

- Attorney fees will be shifted to a plaintiff who loses its patent litigation if at least one of the following requirements is not met:
 - Plaintiff is original inventor or assignee
 - Plaintiff can show commercial exploitation of the patent
 - Plaintiff is institution of higher learning

Litigation Stays for Customers of Patent Infringers

- Courts shall grant motions to stay patent litigation against defendants who are customers of an accused manufacturer defendant
- Requirements:
 - Manufacturer and customer both agree to stay
 - Customer agrees to be bound by collateral estoppel with respect to common issues that are finally decided as to accused manufacturer

Regulation of Cease and Desist Letters

- Cease and desist letters can be considered an unfair or deceptive business practice if:
 - Letter includes false threats of judicial action if compensation is not paid
 - Assertions in letter lacks reasonable basis in fact or law
 - Letter fails to include facts reasonably necessary to inform recipient of:
 - Identity of entity with right to enforce the patent
 - The specific patent claims alleged to be infringed
 - The specific reasons for infringement
 - Method used to calculate proposed compensation

Post-Grant Procedures Made More Inviting

- America Invents Act added post-grant review and inter-partes review as procedures to challenge patent validity
 - Drawback of these procedures:
 - Estoppel for issues that are raised or “reasonably could have been raised”
- New legislation would make estoppel applicable only to issues that are actually raised

Revised Patent Litigation Procedures

- **Infringement Complaint**
 - Identify each patent claim alleged to be infringed
 - Identify each accused product by name or model number
 - Detailed explanation of where each element of each asserted claim is found and how it is satisfied by the accused product
 - Whether each product is infringed literally or under Doctrine of Equivalents
- Discovery limited to claim construction issues until court issues its claim construction

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Orange County



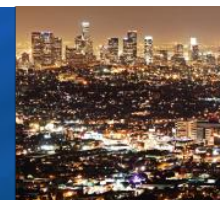
San Diego



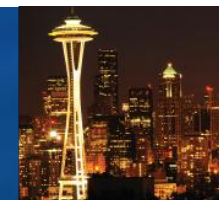
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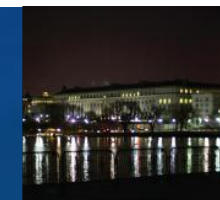
Silicon Valley



Los Angeles



Seattle



Washington DC