

Notable Intellectual Property Cases of 2015, And a Look Ahead to 2016

The last year has brought important decisions in every field of intellectual property. As to patents, the new *Alice* standard for assessing the patentability of arguably abstract ideas implemented on a computer has proved lethal, yielding patent invalidity rulings in nearly every Federal Circuit decision that has applied it; the U.S. Supreme Court called for deference to district court claim constructions based on extrinsic evidence; the Ninth Circuit has given teeth to FRAND obligations for licensing standards-essential patents; and the Supreme Court affirmed its prior ruling against requiring royalties after a patent has expired. In copyright law, the Second Circuit captured the spotlight with its ruling that Google's massive book-scanning project qualifies as fair use. And in the trademark realm, the Supreme Court ruled that TTAB rulings have a preclusive effect in related litigation.

We review these highlights of 2015 below, and then flag cases to watch in 2016.

I. Notable Cases of 2015

1. Patents: *Alice* Continues to Knock Out Patents Based on Abstract Ideas

In its 2014 decision in *Alice Corp. Pty. Ltd. v. CLS Bank Int'l*, 134 S. Ct. 2347 (2014), the Supreme Court fundamentally changed the standard for assessing patents directed to arguably abstract ideas, applying the two-part test from *Mayo Collaborative Servs. V. Prometheus Labs., Inc.*, 132 S. Ct. 1289 (2012) to disputes over patent eligibility involving computer-implemented inventions: first, the reviewing court must evaluate if the claims at issue are "directed to an abstract idea," and if they are, the court must then determine whether the claims include an "inventive concept" that entails something "significantly more" than the abstract idea and thus are patent-eligible. *Alice*, 134 S. Ct. at 2355. In essence, the *Alice* Court instructed that "[s]tating an abstract idea while adding the words 'apply it with a computer'" does not suffice to create a patentable invention. *Id.* at 2350.

In its first substantive application of *Alice* in 2015, the Federal Circuit Court of Appeals invalidated a patent for programs designed to optimize product pricing. *OIP Techs., Inc. v. Amazon.com, Inc.*, 788 F.3d 1359 (Fed. Cir. 2015). The Federal Circuit affirmed the district court's determination under *Alice* that the asserted patent claimed the abstract idea of offer-based price optimization and lacked an inventive concept sufficient to establish a patent-eligible application of that abstract idea. *Id.* at 1364.

In all, 11 of the Federal Circuit's first 12 decisions applying *Alice* (including one issued in January 2016) have resulted in invalidating the patents at issue.¹ In the one decision upholding a patent under *Alice*, the claimed invention enables a website user to view and purchase products offered by the site's advertisers without requiring the user to leave the website. *DDR Holdings, LLC v. Hotels.com, L.P.*, 773 F.3d 1245, 1249-50 (Fed. Cir. 2014). While the defendant argued that the patent entailed no more than an embodiment of the pre-Internet "store-within-a-store" concept, the Federal Circuit found that the patent addressed a new technological problem: retaining website visitors. *Id.* at 1259.

While the early results do not bode well for patents involving arguably abstract ideas, the Federal Circuit's future decisions, including the upcoming *McRO Inc. v. Bandai Namco Games America Inc. et al.*, Case No. 15-1080, involving a patent for lip-sync animation, will further delineate what constitutes the "inventive concept" required to withstand *Alice* scrutiny.

2. Patents: Increased Deference to District Courts on Claim Construction

In its decision in *Teva v. Sandoz*, 135 S. Ct. 831 (2015), the Supreme Court created a partial carve-out to the general rule that the construction of the terms of a patent is purely a legal function that is to be reviewed *de novo* on appeal without any deference to the district court. *Teva* held that claim constructions grounded in a district court's factual findings concerning "extrinsic" evidence, such as the testimony of an expert witness about the meaning of a particular term in the relevant field of technology, must be reviewed under a deferential "clearly erroneous" standard. *Id.* at 840. However, claim constructions

¹ See *Mortgage Grader, Inc. v. First Choice Loan Servs. Inc.*, No. 2015-1415, 2015 WL 9854966, at *1 (Fed. Cir. Jan. 20, 2016) (patent directed to calculating borrower's credit "grade" and providing loan pricing information based on grade); *Vehicle Intelligence & Safety LLC v. Mercedes-Benz USA, LLC*, No. 2015-1411, 2015 WL 9461707, at *2 (Fed. Cir. Dec. 28, 2015) (patent directed to testing operators of moving equipment for physical or mental impairment); *Versata Dev. Grp., Inc. v. SAP Am., Inc.*, 793 F.3d 1306, 1333 (Fed. Cir. 2015) (patent directed to price determination using product groups); *Intellectual Ventures I LLC v. Capital One Bank (USA)*, 792 F.3d 1363, 1367 (Fed. Cir. 2015) (patent directed to identifying and sending notifications regarding financial transactions); *Internet Patents Corp. v. Active Network, Inc.*, 790 F.3d 1343, 1344 (Fed. Cir. 2015) (patent directed to retaining online application data through use of web browser's "back" and "forward" buttons); *Ariosa Diagnostics, Inc. v. Sequenom, Inc.*, 788 F.3d 1371, 1377 (Fed. Cir. 2015) (patent directed to detecting and amplification of DNA sequences in plasma or serum); *Digitech Image Techs. v. EFI, Inc.*, 758 F.3d 1344 (Fed. Cir. 2014) (patent directed to generation and use of "improved device profile" to improve photograph printing); *Ultramercial, Inc. v. Wildtangent, Inc.*, 772 F.3d 709 (Fed. Cir. 2014) (patent directed to free delivery of copyrighted material over the Internet in conjunction with sponsor advertising); *Content Extraction & Transmission LLC v. Wells Fargo*, 776 F.3d 1343 (Fed. Cir. 2014) (patents directed to collection and recognition of scanned document data by ATMs); *Planet Bingo, LLC v. VKGS LLC*, 576 F. App'x 1005, 1007 (Fed. Cir. 2014) (patent directed to managing computerized bingo game); *buySAFE, Inc. v. Google, Inc.*, 765 F.3d 1350 (Fed. Cir. 2014) (patents directed to computer-based third-party guarantee of sales transactions).

predicated on “intrinsic” evidence—that is, the patent’s specification and prosecution history—will continue to be reviewed under a *de novo* standard. *Id.* at 841.

Because the rules of claim construction place primacy on the intrinsic record and typically consider extrinsic evidence to be secondary evidence (if it is considered at all), the scope of *Teva* is limited. However, the decision may encourage an increase in the amount and types of extrinsic evidence litigants present with respect to claim construction, and to the extent district courts rely on that evidence, this may in turn result in greater deference and lower reversal rates on appeal.

3. Patents: Enforcing FRAND Licensing Obligations

Last July, the Ninth Circuit Court of Appeals issued an important decision addressing the obligation of holders of standards-essential patents to grant licenses on a fair, reasonable and nondiscriminatory (FRAND) basis. *Microsoft Corp. v. Motorola, Inc.*, 795 F.3d 1024 (9th Cir. 2015). The suit arose from Motorola’s offer to license its standards-essential Wi-Fi and video coding patents to Microsoft for 2.25 percent of the price of every Microsoft Xbox, smartphone or other product that used the patents. Microsoft refused to pay the royalty and instead filed suit, alleging that the rate was too high and constituted a breach of Motorola’s FRAND obligations. In its ruling—the first of its kind—the district court found that the proper FRAND term was a fixed amount per unit, ranging from .55 cents to 19.5 cents, a small fraction of the royalty Motorola initially sought. *Microsoft Corp. v. Motorola, Inc.*, 2013 WL 2111217, at *4 (W.D. Wash. Apr. 25, 2013).

The court’s findings made clear that FRAND terms should not reflect “holdup value,” a term used to describe a price increase often created by the unequal bargaining power of licensees who are obligated to acquire licenses for standards-essential patents. *Id.* at *20. The district court also found that Motorola, as a patent owner subject to FRAND commitments, could not seek injunctive relief against Microsoft, a willing licensee. *Microsoft Corp. v. Motorola, Inc.*, No. C10-1823JLR, 2012 WL 5993202, at *7 (W.D. Wash. Nov. 30, 2012).² As a result, the jury found that Motorola breached its obligation to grant a license on FRAND terms and awarded fees and costs to Microsoft.³ *Microsoft Corp. v. Motorola, Inc.*, 2013 WL 6000017, at *2 (W.D. Wash. Nov. 12, 2013).

The Ninth Circuit’s affirmance of this win for Microsoft may embolden potential licensees in negotiating FRAND royalty rates. A prospective licensee who believes the demanded royalty rate is excessive may seek relief in court, including for a

² In affirming the district court, the Ninth Circuit noted that FRAND licensors were not prohibited from seeking injunctions against putative licensees in all instances, including, for example, where the licensee refused to accept a license offered on FRAND terms. *Microsoft Corp.*, 795 F.3d at 1049 n.19.

³ The jury also awarded Microsoft costs associated with relocating its European distribution center from Germany to the Netherlands, a move designed to prevent a patent infringement suit brought by Motorola in Germany from interfering with Microsoft’s ability to distribute products in Europe.

determination of an appropriate FRAND rate, and may do so without the threat of an injunction by the licensor. Patent lawyers are also eager to see if the Federal Circuit comments on what some see as a tension between the Ninth Circuit's affirmance in *Motorola* and the Federal Circuit's 2014 decision in *Ericsson, Inc. v. D-Link Sys., Inc.*, 773 F.3d 1201, 1232 (Fed. Cir. 2014), which disapproved of applying a multi-factor test like that used by the Microsoft court to FRAND term disputes.

4. Patents: *Marvel* Reaffirms *Brulotte*, Royalties End at Patent Expiration

In June, the Supreme Court robustly affirmed its prior ruling that it is patent misuse for a license to require royalties based on a patent after the patent has expired, even when the parties actually agree to that arrangement and the license clearly says so. *Kimble v. Marvel Entm't, LLC*, 135 S. Ct. 2401 (2015). *Kimble* addressed whether a contract provision requiring royalty payments to Kimble for his Spider-Man toy patent beyond the patent's expiration was invalid under *Brulotte v. Thys Co.*, 379 U.S. 29, 85 S. Ct. 176 (1965). In seeking reversal, Kimble argued that *Brulotte* was based on outdated economic theories regarding the anticompetitive nature of royalties and should be overruled. Siding with Marvel, a 6-3 majority found that *Brulotte* relied on fundamental patent law principles, rather than any particular economic theory, and that, in any event, arguments for changing the *Brulotte* rule should be addressed to Congress rather than the courts. *Kimble*, 135 S. Ct. at 2413. Thus, Kimble could not clear the high bar required to disregard *stare decisis*, and the Supreme Court affirmed *Brulotte*'s essential holding: patent law overrides contractual agreements that require royalties following the expiration of the licensor's patent rights and renders them illegal.

5. Copyright: Google's Massive Book-Scanning Project Upheld as Fair Use

In October, the Second Circuit Court of Appeals issued an important decision that underscores the importance of the "transformative purpose" element of fair use analysis in copyright law. In *Authors Guild v. Google, Inc.*, 804 F.3d 202 (2d Cir. 2015), and after nearly a decade of litigation, the Second Circuit rejected a copyright challenge by various authors to the Google Books Library Project, finding that Google was entitled to fair use protection and thus has not infringed upon the authors' rights. The Google Books Library Project is part of a Google initiative to scan tens of millions of books for Internet text searching and permit users to read small portions of selected pages of the books. The Second Circuit determined that this was a fair use because the purpose was to "to make available significant information *about those books*," rather than to make the books themselves available. *Id.* at 217. The court was unmoved by the argument that Google had a commercial purpose for its search function, noting that Google would "show the searcher just enough context surrounding the searched term to help her evaluate whether

the book falls within the scope of her interest” and “thus adds importantly to the highly transformative purpose of identifying books of interest.” *Id.* at 218.

This decision supports the collection and limited use of the information contained in a copyrighted work, and underscores one of the “ultimate goal[s] of copyright[, which] is to expand public knowledge and understanding.” *Id.* at 212. On December 31, 2015, the Authors Guild filed a petition for a writ of *certiorari* to the Supreme Court.⁴

6. Trademark: TTAB Findings Carry Preclusive Effect in Related Litigation

The Supreme Court held that findings made by the U.S. Patent and Trademark Office’s Trademark Trial and Appeal Board (TTAB) can have a preclusive effect in subsequent federal court proceedings if the usual requirements of issue preclusion are met. In *B&B Hardware, Inc. v. Hargis Indus., Inc.*, 135 S. Ct. 1293 (2015), the Supreme Court held that the “likelihood of confusion” standard applied by the TTAB in registration proceedings and federal courts in infringement suits is effectively the same for purposes of issue preclusion. The underlying action arose from Hargis’s attempt to register the mark “Sealtite,” which the TTAB refused on the grounds that it was too similar to B&B’s “Sealtight” mark. When Hargis then continued using the “Sealtite” mark, B&B sued it for trademark infringement. The district court declined to give preclusive effect to the TTAB’s decision on “likelihood of confusion,” and the Eighth Circuit affirmed. *Id.* at 1299. In reversing, the Supreme Court reasoned that, even though the TTAB and district courts have different procedures and purposes, so long as the TTAB reaches a final decision on the same issue as the one before the district court, the court should give preclusive effect to that decision. *Id.* at 1310.

This new preclusive effect of TTAB rulings on confusion could potentially impact the strategies of litigants faced with the decision whether to bring disputes before the TTAB or to initiate federal court proceedings.

II. A Look Ahead to 2016

There are several important intellectual property cases to watch this year.

Patents

The Supreme Court will address a challenge to the Federal Circuit’s standards for awarding enhanced damages for willful patent infringement as being excessively rigid and affording too little deference to district courts. *Halo Elecs., Inc. v. Pulse Elecs., Inc.*, Case No. 14-1513; *Stryker Corp. v. Zimmer, Inc.*, Case No. 14-1520. If the Court follows its approach in *Octane Fitness, LLC v. Icon Health & Fitness, Inc.*, 134 S. Ct. 1749, 1756 (2014), in which it revised the standards for awarding fees to prevailing parties in patent suits, the Court likely will adopt a flexible test for enhanced damages,

⁴ Petition for a Writ of Certiorari, *Authors Guild, et al. v. Google, Inc.*, No. 15-849 (2d Cir. Dec. 31, 2015).

requiring only a showing of willfulness by a preponderance of the evidence rather than clear and convincing evidence, and instructing that appellate review should be performed under an abuse of discretion standard rather than on a *de novo* basis. The Solicitor General's *amicus* brief on behalf of the government, including the Patent and Trademark Office, has advocated such a ruling.

In *Lexmark Int'l, Inc. v. Impression Prods., Inc.*, Case No. 14-1619, the Federal Circuit will address *en banc* whether foreign sales of patented products can exhaust U.S. patent rights. In *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013), the Supreme Court determined that an authorized foreign sale of a copyrighted work exhausts the copyright holder's U.S. rights, preventing the holder from filing suit if the foreign-sold works are later resold in the U.S. By contrast, under current patent law, authorized foreign sales of patented items do not trigger exhaustion, meaning that infringement suits can be brought under U.S. patents against a product whose sale was authorized outside of the U.S. See, e.g., *Jazz Photo Corp. v. ITC*, 264 F. 3d 1094 (Fed. Cir. 2001). Under the current standard, Lexmark is suing Impression for infringement based on its practice of refilling and reselling foreign-sold Lexmark printer ink cartridges in the U.S. without Lexmark's consent. If the Federal Circuit adopts *Kirtsaeng's* logic and overrules *Jazz Photo*, the new approach to international patent exhaustion could impact licensing practices and product development, particularly for companies that test products in foreign markets before launching them in the U.S.

Copyright

Kirtsaeng v. John Wiley & Sons, Inc., Case No. 15-375, will return to the Supreme Court in 2016 to address a dispute about whether Kirtsaeng's victory entitles him to attorneys' fees under the Copyright Act. In *Fogerty v. Fantasy, Inc.*, 510 U.S. 517, 535 n.19, (1994), the Supreme Court set out a list of nonexhaustive factors for courts to use in determining whether to exercise their discretionary authority to award attorneys' fees to prevailing parties in copyright suits. Circuit courts have adopted different tests for applying the *Fogerty* factors. Some employ a rebuttable presumption in favor of awards,⁵ and others, including the Second Circuit, focus on the "reasonableness" of the unsuccessful party's claims. Citing the reasonableness of John Wiley's claims, and noting its initial victories at the district court and circuit court, the district court in *Kirtsaeng*, affirmed by the Second Circuit, denied Kirtsaeng's request for attorneys' fees. *John Wiley & Sons, Inc. v. Kirtsaeng*, No. 08-CV-07834 DCP, 2013 WL 6722887, at *6 (S.D.N.Y. Dec. 20, 2013) *aff'd*, 605 F. App'x 48 (2d Cir. 2015). In early January, the Supreme Court granted Kirtsaeng's certiorari petition, presumably in order to provide guidance on how courts should approach

⁵ See, e.g., *HyperQuest, Inc. v. N'Site Sols., Inc.*, 632 F.3d 377, 387 (7th Cir. 2011) ("Defendants who defeat a copyright infringement action are entitled to a strong presumption in favor of a grant of fees.") *cf.* *Compaq Computer Corp. v. Ergonome Inc.*, 387 F.3d 403, 411 (5th Cir. 2004) ("award of attorneys' fees in copyright cases is the rule rather than the exception, and should be awarded routinely").

requests for attorneys' fees in copyright suits. *Kirtsaeng v. John Wiley & Sons, Inc.*, No. 15-375, 2016 WL 205944 (U.S. Jan. 15, 2016).

Intellectual property lawyers will continue in 2016 to watch *Oracle Am., Inc. v. Google, Inc.*, Case No. 3:10-cv-3561 (N.D. Cal.), to learn more about the extent to which software may be protected by copyright law. Following a 2012 trial, a jury found that Google had infringed Oracle's software code by using it in its Android systems, but deadlocked on Google's fair use defense. In May 2012, the district court ruled that Oracle's software code could not be copyrighted as a matter of law, both because it was the memorialization of an idea that could only be expressed in one way and because the code was a collection of non-copyrightable short phrases. *Oracle Am., Inc. v. Google, Inc.*, 872 F. Supp. 2d 974, 975 (N.D. Cal. 2012). As a result, the court found that Google could not be sued for using Oracle's software and overturned the jury verdict. *Id.* In 2014, the Federal Circuit reversed the district court and ruled that Oracle's software code was eligible for copyright protection because, contrary to the district court's finding, the code could have been written in myriad combinations and because the collection of phrases, when strung together, exhibited copyrightable expression. *Oracle Am., Inc. v. Google, Inc.*, 750 F.3d 1339, 1368 (Fed. Cir. 2014). The Supreme Court refused to hear the case last June, thus sending it back to the district court for a determination as to whether Google's infringement of Oracle's copyrights is protected as a fair use. *Google, Inc. v. Oracle Am., Inc.*, 135 S. Ct. 2887 (2015).

Trademark

Two trademark cases also will be closely watched in 2016. First, the Fourth Circuit Court of Appeals will determine whether a trademark that has never been used in the U.S. can be protected under U.S. law. Specifically, in *Belmora, LLC v. Bayer Consumer Care AG*, Case No. 15-1335, the court will decide whether Bayer AG can stop Belmora from registering as a U.S. trademark a name that Bayer has long used abroad by Bayer AG. Bayer AG uses the name "Flanax" in Mexico to market naproxen sodium, which it sells in the U.S. as "Aleve." Bayer AG's attempt to register "Flanax" in the U.S. was denied because of Belmora's use and prior registration of the name in the U.S. Bayer AG is contesting the denial and seeking cancellation of Belmora's registration.

The second closely watched trademark case could have implications over the extent to which apparel designs can be protected by trademark law. *In re Certain Footwear Prods.*, Investigation No. 337-TA-936 (ITC), involves a dispute over "knock-off" versions of the popular Converse Chuck Taylor All-Star style sneakers. In 2015, a U.S. International Trade Commission (ITC) judge ruled that Converse has protectable rights in the rubber bumper that encircles the bottom of the shoe at issue, because the bumpers are "nonfunctional" design elements, and thus can exclude the importation into the U.S. of sneakers using that feature. This ruling is an important one for the fashion industry, which, unlike others that have been able to protect the design of its products as "nonfunctional"

elements, has struggled to find legal protection for its designs in existing U.S. intellectual property law. While some companies—including H&M, Ralph Lauren and Fila—have settled with Converse, others—including Wal-Mart and Skechers—are continuing to defend against Converse’s claim. Later this year, the case will be addressed by the full ITC, which will either affirm or reject the judge’s decision. Regardless of what the Commission decides, it is possible that this case will be considered by the Federal Circuit.

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Please call any of your regular contacts at the firm or any of the partners and counsel listed under [Intellectual Property](#) or [Litigation and Arbitration](#) in the Practices section of our website (www.clearygottlieb.com) if you have any questions.

CLEARY GOTTLIEB STEEN & HAMILTON LLP

Office Locations

NEW YORK

One Liberty Plaza
New York, NY 10006-1470
T: +1 212 225 2000
F: +1 212 225 3999

WASHINGTON

2000 Pennsylvania Avenue, NW
Washington, DC 20006-1801
T: +1 202 974 1500
F: +1 202 974 1999

PARIS

12, rue de Tilsitt
75008 Paris, France
T: +33 1 40 74 68 00
F: +33 1 40 74 68 88

BRUSSELS

Rue de la Loi 57
1040 Brussels, Belgium
T: +32 2 287 2000
F: +32 2 231 1661

LONDON

City Place House
55 Basinghall Street
London EC2V 5EH, England
T: +44 20 7614 2200
F: +44 20 7600 1698

MOSCOW

Cleary Gottlieb Steen & Hamilton LLC
Paveletskaya Square 2/3
Moscow, Russia 115054
T: +7 495 660 8500
F: +7 495 660 8505

FRANKFURT

Main Tower
Neue Mainzer Strasse 52
60311 Frankfurt am Main, Germany
T: +49 69 97103 0
F: +49 69 97103 199

COLOGNE

Theodor-Heuss-Ring 9
50688 Cologne, Germany
T: +49 221 80040 0
F: +49 221 80040 199

ROME

Piazza di Spagna 15
00187 Rome, Italy
T: +39 06 69 52 21
F: +39 06 69 20 06 65

MILAN

Via San Paolo 7
20121 Milan, Italy
T: +39 02 72 60 81
F: +39 02 86 98 44 40

HONG KONG

Cleary Gottlieb Steen & Hamilton (Hong Kong)
Hysan Place, 37th Floor
500 Hennessy Road
Causeway Bay
Hong Kong
T: +852 2521 4122
F: +852 2845 9026

BEIJING

Cleary Gottlieb Steen & Hamilton LLP
45th Floor, Fortune Financial Center
5 Dong San Huan Zhong Lu
Chaoyang District
Beijing 100020, China
T: +86 10 5920 1000
F: +86 10 5879 3902

BUENOS AIRES

CGSH International Legal Services, LLP-
Sucursal Argentina
Avda. Quintana 529, 4to piso
1129 Ciudad Autonoma de Buenos Aires
Argentina
T: +54 11 5556 8900
F: +54 11 5556 8999

SÃO PAULO

Cleary Gottlieb Steen & Hamilton
Consultores em Direito Estrangeiro
Rua Funchal, 418, 13 Andar
São Paulo, SP Brazil 04551-060
T: +55 11 2196 7200
F: +55 11 2196 7299

ABU DHABI

Al Sila Tower, 27th Floor
Abu Dhabi Global Market Square
Al Maryah Island, PO Box 29920
Abu Dhabi, United Arab Emirates
T: +971 2 412 1700
F: +971 2 412 1899

SEOUL

Cleary Gottlieb Steen & Hamilton LLP
Foreign Legal Consultant Office
19F, Ferrum Tower
19, Eulji-ro 5-gil, Jung-gu
Seoul 100-210, Korea
T: +82 2 6353 8000
F: +82 2 6353 8099