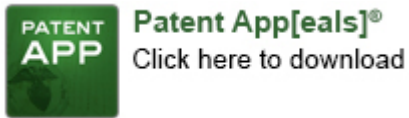


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## Last Month at the Federal Circuit

December 2014



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### **Federal Circuit Reiterates Strong Presumption Against Means-Plus-Function Claiming for Claim Limitations That Fail to Use the Word “Means”**

*Williamson v. Citrix Online, LLC*  
No. 13-1130 (Fed. Cir. Nov. 5, 2014)  
[Appealed from C.D. Cal., Judge Matz]

### **Transfer of All Substantial Rights in the Patent Results in Transferee Becoming the Effective Owner for Purposes of Standing**

*Azure Networks, LLC v. CSR PLC*  
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*Ultramercial, Inc. v. Hulu, LLC*  
No. 10-1544 (Fed. Cir. Nov. 14, 2014)  
[Appealed from C.D. Cal., Judge Klausner]

### **Collateral Estoppel Applied to Claim Limitation Despite Intervening Reexamination**

*e.Digital Corp. v. Futurewei Technologies, Inc.*  
Nos. 14-1019, -1242, -1243  
(Fed. Cir. Nov. 19, 2014)  
[Appealed from S.D. Cal., Judge Sabraw]

### **Stay Warranted Even If Covered Business Method Review Does Not Address All Asserted Patents, Claims, or Invalidity Defenses**




*Versata Software, Inc. v. Callidus Software, Inc.*  
No. 14-1468 (Fed. Cir. Nov. 20, 2014)  
[Appealed from D. Del., Judge Robinson]

## Abbreviations

AIA	America Invents Act
ALJ	Administrative Law Judge
ANDA	Abbreviated New Drug Application
APA	Administrative Procedures Act
APJ	Administrative Patent Judge
Board	Patent Trial and Appeal Board (formerly the Board of Patent Appeals and Interferences)
Commissioner	Commissioner of Patents and Trademarks
CIP	Continuation-in-Part
DJ	Declaratory Judgment
DOE	Doctrine of Equivalents
FDA	Food and Drug Administration
IDS	Information Disclosure Statement
ITC	International Trade Commission
JMOL	Judgment as a Matter of Law
MPEP	Manual of Patent Examining Procedure
NDA	New Drug Application
PCT	Patent Cooperation Treaty
PTO	United States Patent and Trademark Office
SJ	Summary Judgment
TTAB	Trademark Trial and Appeal Board

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### **Federal Circuit Reiterates Strong Presumption Against Means-Plus-Function Claiming for Claim Limitations That Fail to Use the Word “Means”**

*Chen Zang*

**Judges: Moore, Linn (author), Reyna (dissenting)**

**[Appealed from C.D. Cal., Judge Matz]**

In *Williamson v. Citrix Online, LLC*, No. 13-1130 (Fed. Cir. Nov. 5, 2014), the Federal Circuit vacated a stipulated judgment of noninfringement and invalidity, finding that the district court erroneously construed “graphical display” limitations to require a pictorial map and the term “distributed learning control module” as a means-plus-function expression.

Richard A. Williamson, as trustee for the At Home Corporation Bondholders’ Liquidating Trust, owns U.S. Patent No. 6,155,840 (“the ’840 patent”). The ’840 patent describes methods and systems for distributed learning that create a virtual classroom to connect presenters with geographically remote audiences. Williamson accused Citrix Online, LLC and others (collectively “Citrix”) of infringing the ’840 patent based on various systems and methods of online collaboration. The district court construed “graphical display” limitations in claims 1 and 17 of the ’840 patent as requiring a pictorial map and the “distributed learning control module” in claim 8 as a means-plus-function term. Williamson conceded that the district court’s construction rendered claims 1-7 and 17-24 not infringed and claims 8-16 invalid as indefinite. The parties stipulated to final judgment. Williamson appealed.

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**“This court has repeatedly ‘cautioned against limiting the claimed invention to preferred embodiments or specific examples in the specification.’” Slip op. at 10 (quoting *Teleflex, Inc. v. Ficoso N. Am. Corp.*, 299 F.3d 1313, 1327-28 (Fed. Cir. 2002)).**

**“[W]e have seldom held that a limitation not using the term ‘means’ must be considered to be in means-plus-function form, and the circumstances must be [unusual] to overcome the presumption.” *Id.* at 14 (alterations in original) (quoting *Lighting World, Inc. v. Birchwood Lighting, Inc.*, 382 F.3d 1354, 1362 (Fed. Cir. 2004)) (internal quotation marks omitted).**

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On appeal, the Federal Circuit held that the district court erred in both claim constructions. Regarding the construction of the “graphical display” limitations, the Court explained that it “has repeatedly ‘cautioned against limiting the claimed invention to preferred embodiments or specific examples in the specification.’” Slip op. at 10 (quoting *Teleflex, Inc. v. Ficoso N. Am. Corp.*, 299 F.3d 1313, 1327-28 (Fed. Cir. 2002)). While the ’840 patent specification discloses examples and embodiments depicting the visual classroom as a “map” or “seating chart,” the Court explained that the specification does not limit

the graphical display to those examples and embodiments. Contrarily, the specification describes these examples and embodiments in terms of preference, using words such as “preferably” and “exemplary.” Thus, the Court held that the district court should not have imported the pictorial map from the specification into the claims.

Regarding the construction of “distributed learning control module,” the Court noted that a claim term’s failure to use the word “means” creates a strong rebuttable presumption that 35 U.S.C. § 112, ¶ 6, does not apply and that it has seldom found this presumption overcome. To rebut the presumption, “it must be demonstrated that ‘skilled artisans, after reading the patent, would conclude that [the] claim limitation is so devoid of structure that the drafter constructively engaged in means-plus-function claiming.’” *Id.* at 13 (alteration in original) (quoting *Inventio AG v. ThyssenKrupp Elevator Ams. Corp.*, 649 F.3d 1350, 1357 (Fed. Cir. 2011)). For evidence of the understanding of skilled artisans, a court can look to technical dictionaries. A court must also consider whether the claimed expression as a whole conveys sufficient structural meaning.

According to the Court, in equating the word “module” to “means,” the district court failed to appreciate that “module” has several dictionary meanings with structural connotations. Moreover, the Court held that the district court placed undue emphasis on “module” separate and apart from the surrounding expression “distributed learning control module” and failed to give proper weight to the rest of the claim language and the text of the specification. Accordingly, the Federal Circuit vacated the district court’s entry of final judgment against Williamson and remanded the case to the district court.

Judge Reyna dissented. Regarding the “graphical display” limitations, Judge Reyna agreed that those limitations do not require a pictorial map, but would have held that the majority’s construction ignored the critical limitation of a visually depicted virtual classroom. Judge Reyna noted that the applicant distinguished the invention from the prior art during prosecution on the basis that the ’840 patent requires display of a visual virtual classroom. Moreover, in Judge Reyna’s view, the applicant used the classroom metaphor extensively throughout the specification in characterizing the operation and touting the benefits of the invention.

Judge Reyna also disagreed with the majority regarding whether the term “distributed learning control module” is a means-plus-function term. Judge Reyna explained that “module” is a nonce word that operates in the limitation as a substitute for “means.” Further, Judge Reyna would have held that the specification fails to disclose sufficient structure that corresponds to the claimed function.

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**December 2014**

### **Transfer of All Substantial Rights in the Patent Results in Transferee Becoming the Effective Owner for Purposes of Standing**

*Drew J. Bennett*

**Judges: Reyna, Mayer (dissenting-in-part), Chen (author)**

**[Appealed from E.D. Tex., Judge Schneider]**

In *Azure Networks, LLC v. CSR PLC*, No. 13-1459 (Fed. Cir. Nov. 6, 2014), the Federal Circuit affirmed the district court's finding that Tri-County Excelsior Foundation ("Tri-County") be dismissed from the suit for lack of standing because Tri-County had effectively assigned Azure Networks, LLC ("Azure") U.S. Patent No. 7,756,129 ("the '129 patent"). The Federal Circuit also vacated the district court's judgment of noninfringement due to the district court's construction of the term "MAC address," and remanded to the district court for further proceedings.

Plaintiffs Azure and Tri-County filed suit against CSR PLC, Cambridge Silicon Radio International, LLC, Atheros Communications, Inc., Qualcomm Inc., Broadcom Corp., Marvell Semiconductor, Inc., Ralink Technology Corp. (Taiwan), and Ralink Technology Corp. (USA) (collectively "Appellees") for alleged infringement of the '129 patent. The '129 patent describes a wireless communication personal area network between a central hub device and surrounding peripheral devices that are in close proximity to the hub device. Relying on the specification, the district court concluded that the patentee acted as his own lexicographer and redefined the term "MAC address." The district court construed the term in the '129 patent as "a device identifier generated by the hub device." Slip op. at 5 (citation omitted). For purposes of appeal, Azure stipulated to a judgment of noninfringement under the district court's construction. The district court also granted the Appellees' motion to dismiss Tri-County from the suit for lack of standing. The district court concluded that Tri-County's title in the '129 patent and financial and reversionary interests were insufficient to confer standing upon Tri-County. Azure and Tri-County appealed Tri-County's dismissal.

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**"As the district court recognized, nothing about this relationship structure indicates that Tri-County has control over any aspect of litigation involving the '129 patent. Rather, it is clear that Azure is holding all the strings. In sum, Azure's exclusive right to sue, exclusive license, and freedom to sublicense are factors that strongly suggest that the Agreement constitutes an effective assignment." Slip op. at 11-12.**

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On appeal, the Federal Circuit held that the district court correctly granted the Appellees' motion to dismiss Tri-County due to lack of standing. The Court explained that "[e]ven if a patentee does not transfer legal title, it may transfer significant rights to the patent. When the patentee transfers rights, the party that has been granted all substantial rights under the patent is considered the owner regardless of

how the parties characterize the transaction that conveyed those rights.” *Id.* at 8 (quoting *Speedplay, Inc. v. Bebob, Inc.*, 211 F.3d 1245, 1250 (Fed. Cir. 2000)). At the outset of its analysis, the Court stated that its “inquiry in this case is twofold: (1) whether Tri-County transferred all substantial rights under the ’129 patent to Azure, making Azure the effective owner; and *if so*, (2) whether Tri-County may nevertheless join in an infringement suit brought by the licensee, but now effective owner, Azure.” *Id.* at 9.

For the purposes of standing, the Court explained that Tri-County had transferred all substantial rights to Azure, and, therefore, Azure was the effective owner for purposes of standing. In this regard, the Court stated that “it is not uncommon for a licensor to transfer to its licensee the exclusive right to enforce the patent.” *Id.* at 11. Significantly, the Court noted, “Tri-County reserved no right to have control over, to veto, or to be notified of any of Azure’s licensing or litigation activities. Retaining control of these activities is also critical to demonstrating that the patent has not been effectively assigned to the licensee.” *Id.* After considering Tri-County’s evidence demonstrating that it transferred something less than “all substantial rights,” the Court determined that, “[a]fter weighing all the factors, we agree with the district court that Azure acquired significant rights under the ’129 patent, including the right to enforce, to license, to control the licensing and litigation, to sublicense, to practice exclusively, and to maintain the patent.” *Id.* at 18. The Court made clear that not only did Tri-County lack standing to bring suit, but more importantly, it lacked standing to even join the suit. “Because Tri-County does not have any exclusionary rights under the ’129 patent, it lacks standing to join the suit as a coplaintiff. Tri-County’s standing deficiency cannot be cured by adding Azure to the suit.” *Id.* at 19.

Turning to the issue of claim construction, the Federal Circuit found that the district court interpreted “MAC address” too narrowly. The Federal Circuit particularly found that the claims in the ’129 patent use “MAC address” in a consistent manner with the well-understood industry meaning. The Federal Circuit, explaining its finding, found that the claims of the ’129 patent did not make explicit whether the “MAC address” is generated locally or universally. “For a patentee to act as his own lexicographer and give a term something other than its well-established meaning, he must ‘clearly set forth a definition of the disputed term.’” *Id.* at 22 (quoting *CCS Fitness, Inc. v. Brunswick Corp.*, 288 F.3d 1359, 1366 (Fed. Cir. 2002)). In the present case, the Court found that “the specification did not re-coin an established term of art by redefining it to have a narrower definition than the traditional MAC address.” *Id.* Particularly, the Court determined that “‘MAC address’ has a ‘clear, settled, and objective’ meaning to a person of ordinary skill in the art . . . [a]nd when read in context, it becomes clear that that ‘Media Access (MAC) address’ in the specification has the same meaning as that of a traditional MAC address: it is a device identifier.” *Id.* at 23 (citations omitted). Thus, the Federal Circuit adopted Azure’s proposed construction of “MAC address” as “an address that uniquely identifies a device or group of devices on a shared communication medium.” *Id.* at 25.

Accordingly, the Federal Circuit affirmed the district court’s dismissal of Tri-County, vacated the district court’s judgment of noninfringement, and remanded for further proceedings as outlined in its opinion.

Judge Mayer concurred-in-part and dissented-in-part. Judge Mayer agreed with the majority’s “thorough and well-reasoned analysis of the standing question.” Mayer Dissent at 2. Judge Mayer, however, dissented from Section II of the opinion regarding the construction of the term “MAC address.” According to Judge Mayer, the specification was replete with references of how the “MAC address” is indeed “an address assigned to a peripheral device by a hub device,” *id.*, and discloses no other method for network communication,” *id.* at 3-4. Accordingly, Judge Mayer concluded that fundamental errors infected the Court’s decision to expand the ’129 patent to cover an invention neither claimed nor described by the patentees, and “the court has no warrant to vastly expand the term to cover any address that uniquely identifies a device on a network.” *Id.*

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### Abstract Idea Can Be Patent Ineligible Even If Novel or Nonroutine Components Are Added

Ming W. Choy

**Judges:** Lourie (author), Mayer (concurring), O'Malley  
[Appealed from C.D. Cal., Judge Klausner]

In *Ultramercial, Inc. v. Hulu, LLC*, No. 10-1544 (Fed. Cir. Nov. 14, 2014), the Federal Circuit affirmed the district court's determination that the asserted patent did not claim patent-eligible subject matter.

Ultramercial, Inc. and Ultramercial, LLC (collectively "Ultramercial") own U.S. Patent No. 7,346,545 ("the '545 patent"), which is directed to a method for distributing copyrighted media over the Internet to consumers in exchange for them viewing an advertisement. Ultramercial sued WildTangent, Inc. ("WildTangent"), Hulu, LLC ("Hulu"), and YouTube, LLC ("YouTube"), alleging infringement of the '545 patent. Hulu and YouTube were subsequently dismissed. WildTangent moved to dismiss for failure to state a claim, arguing that the '545 patent did not claim patent-eligible subject matter. The district court granted WildTangent's motion. Ultramercial appealed.

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**"That some of the eleven steps were not previously employed in this art is not enough—standing alone—to confer patent eligibility upon the claims at issue." Slip op. at 12.**

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On appeal, the Federal Circuit initially reversed the district court's grant of WildTangent's motion. WildTangent then filed a petition for a writ of certiorari to the Supreme Court, who granted the petition, vacated the Court's decision, and remanded for further consideration in light of *Mayo Collaborative Services v. Prometheus Laboratories, Inc.*, 566 U.S. \_\_\_, 132 S. Ct. 1289 (2012). On remand, the Federal Circuit again reversed the district court's grant of the motion. WildTangent then filed a second petition for a writ of certiorari, which the Supreme Court granted, vacating the Federal Circuit's second decision and remanding for further consideration in light of *Alice Corp. v. CLS Bank International*, 573 U.S. \_\_\_, 134 S. Ct. 2347 (2014). On the second remand, the Federal Circuit applied the Supreme Court's two-part § 101 framework set forth in *Alice* and *Mayo*, and held that the claims of the '545 patent are not directed to patent-eligible subject matter.

Under this framework, the Federal Circuit first considered whether the '545 patent's claims were directed to an abstract idea. After examining the eleven steps recited in claim 1, the Court concluded that the claim "describes only the abstract idea of showing an advertisement before delivering free content." Slip op. at 9-10. The Court further explained that these steps have "no particular concrete or tangible form." *Id.* at 9. The Court rejected Ultramercial's position that "the addition of merely novel or non-routine components to the claimed idea necessarily turns an abstraction into something concrete,"



explaining that “any novelty in [the] implementation of the idea is a factor to be considered only in the second step of the *Alice* analysis.” *Id.* at 10.

Next, the Federal Circuit turned to the second step of the *Alice* framework and considered “whether the claims do significantly more than simply describe [the] abstract method.” *Id.* The Court concluded that the additional limitations of the ’545 patent do not transform the abstract idea into patent-eligible subject matter because “the claims simply instruct the practitioner to implement the abstract idea with routine, conventional activity.” *Id.* at 11. The Court explained that routine additional steps of updating an activity log, requiring a request from the consumer to view the ad, restrictions on public access, and use of the Internet were only “‘conventional steps, specified at a high level of generality,’ which [are] insufficient to supply an ‘inventive concept.’” *Id.* (quoting *Alice*, 134 S. Ct. at 2357). The Court further explained that several of the recited steps were mere data-gathering and presolution activity, which did not create patent-eligible subject matter. The Court also stated that “invocation of the Internet also adds no inventive concept,” *id.* at 11, because limiting the use of the abstract idea to a particular technological environment is insufficient to provide any “practical assurance that the process is more than a drafting effort designed to monopolize the [abstract idea] itself,” *id.* at 12 (alteration in original) (quoting *Mayo*, 132 S. Ct. at 1297). The Court then held that the fact that “some of the eleven steps were not previously employed in this art [was] not enough—standing alone—to confer patent eligibility upon the claims at issue.” *Id.*

The Court next considered whether the claims satisfied the machine-or-transformation test, but noted that this test is not the sole test governing § 101 analyses. The Court explained that the claims were not tied to a particular novel machine or apparatus, but only a general purpose computer. The Court also stated that tying the claim to the Internet was insufficient to satisfy the machine prong of the test because the Internet “is a ubiquitous information-transmitting medium, not a novel machine.” *Id.* at 13. The Court explained that the ’545 patent’s claims do not transform any article to a different state or thing because they refer to a transaction involving the grant of permission and viewing of an advertisement by a consumer, and the exchange of money between a sponsor and a content provider. Because these were “manipulations of ‘public or private legal obligations or relationships, business risks, or other such abstractions,’” the Court held that the claims did not transform any article into a different state or thing. *Id.* (quoting *In re Bilski*, 545 F.3d 943, 963 (Fed. Cir. 2008) (en banc), *aff’d on other grounds*, *Bilski v. Kappos*, 561 U.S. 593 (2010)).

The Court thus affirmed the district court’s grant of the motion to dismiss on the ground that the ’545 patent does not claim patent-eligible subject matter.

Judge Mayer concurred with the opinion, but wrote separately to emphasize three points. First, Judge Mayer asserted that whether claims satisfy 35 U.S.C. § 101 is a threshold question that must be addressed at the outset of litigation. Second, Judge Mayer asserted that no presumption of eligibility attends the § 101 inquiry. Third, Judge Mayer asserted that *Alice*, “for all intents and purposes, sets out a technological arts test for patent eligibility.” Mayer Concurrence at 1. Judge Mayer concluded that, because “the purported inventive concept in Ultramercial’s asserted claims is an entrepreneurial rather than technological one, they fall outside section 101.” *Id.*

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### **Collateral Estoppel Applied to Claim Limitation Despite Intervening Reexamination**

*Rachel L. Erdman*

**Judges: Moore (author), O'Malley, Reyna**

**[Appealed from S.D. Cal., Judge Sabraw]**

In *e.Digital Corp. v. Futurewei Technologies, Inc.*, Nos. 14-1019, -1242, -1243 (Fed. Cir. Nov. 19, 2014), the Federal Circuit affirmed the district court's application of collateral estoppel to U.S. Patent No. 5,491,774 ("the '774 patent"), reversed the district court's application of collateral estoppel to unrelated U.S. Patent No. 5,839,108 ("the '108 patent"), held that the district court did not abuse its discretion in converting a stipulated partial judgment into a final judgment, and remanded for further proceedings.

The '774 patent, owned by e.Digital Corporation ("e.Digital"), discloses an audio recording and playback device with a microphone and a removable, interchangeable flash memory recording medium. Prior to the cases at issue in the instant appeal, e.Digital asserted claims 1 and 19 of the '774 patent in the U.S. District Court for the District of Colorado ("Colorado Court"). The Colorado Court construed the sole memory limitation in the claims as requiring that the device use only flash memory, and then granted the parties' stipulation to dismiss the case with prejudice. In a subsequent ex parte reexamination, the PTO cancelled claims 1 and 19 of the '774 patent and issued reexamined claim 33, which, among other limitations, recites the sole memory limitation of the cancelled claims.

Following reexamination, e.Digital asserted reexamined claim 33 of the '774 patent and claims 2 and 5 of the '108 patent in the U.S. District Court for the Southern District of California against Futurewei Technologies, Inc. and Huawei Device USA (collectively "Huawei") and four other defendants. Based on the Colorado Court's previous claim construction, the defendants moved to apply collateral estoppel to the sole memory limitation in both the '774 and '108 patents. The district court granted the motions and adopted the Colorado Court's construction, finding that the '774 patent reexamination never addressed the sole memory limitation, and that the '108 and '774 patents were "closely related." e.Digital stipulated to final judgment of noninfringement with Huawei, and stipulated to a nonfinal partial judgment of noninfringement with the other defendants. The district court converted the partial judgments to final judgments, and e.Digital appealed.

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**"Though we do not hold that reexamination history cannot ever create a new issue that would preclude the application of collateral estoppel, such a scenario does not exist here because the reexamination history in no way modifies, clarifies, or even informs the construction of the sole memory limitation." Slip op. at 5.**

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On appeal, the Federal Circuit held that the district court correctly applied collateral estoppel to

the '774 patent. The Court reasoned that the sole memory limitation in reexamined claim 33 was identical to that in the cancelled claims, and that the reexamination did not address the limitation. The Court emphasized that although reexamination history may “create a new issue that would preclude the application of collateral estoppel, such a scenario does not exist here because the reexamination history in no way modifies, clarifies, or even informs the construction of the sole memory limitation.” Slip op. at 5.

Regarding the '108 patent, the Court held that collateral estoppel did not apply. The Court reasoned that the '108 patent presented a separate claim construction issue, and that while the '108 patent discloses an improvement to the '774 patent and may incorporate by reference the '774 patent as prior art, the patents were not related. The Court explained that “[t]he '108 patent discloses a separate invention, includes a distinct prosecution history, and is supported by a different written description,” and that “[t]hese distinctions reinforce the well-understood notion that claims of unrelated patents must be construed separately.” *Id.* at 6 (citing *Tex. Digital Sys., Inc. v. Telegenix, Inc.*, 308 F.3d 1193, 1211 (Fed. Cir. 2002)).

The Court clarified that its decision does not automatically permit courts to “impose collateral estoppel to bar a claim construction dispute solely because the patents are related.” *Id.* Instead, the Court explained that “[e]ach case requires a determination that each of the requirements for collateral estoppel [is] met, including that the issue previously decided is identical to the one sought to be litigated.” *Id.* at 6-7.

The Court also held that the district court did not abuse its discretion in converting the partial judgment of noninfringement as to the other defendants to a final judgment under Fed. R. Civ. P. 54(b). The Court explained that the district court did not err in determining that there was no just reason for delay and that its decision ensured that the collateral estoppel order would be appealed only once.

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### **Stay Warranted Even If Covered Business Method Review Does Not Address All Asserted Patents, Claims, or Invalidity Defenses**

*Shawn S. Chang*

**Judges: Chen (author), Mayer, Linn**

**[Appealed from D. Del., Judge Robinson]**

In *Versata Software, Inc. v. Callidus Software, Inc.*, No. 14-1468 (Fed. Cir. Nov. 20, 2014), the Federal Circuit reversed the district court's denial of a stay pending covered business method ("CBM") review of the patents-in-suit and remanded with instructions to stay the action.

Versata Software, Inc., Versata Development Group, Inc., and Versata, Inc. (collectively "Versata") sued Callidus Software, Inc. ("Callidus"), alleging infringement of U.S. Patent Nos. 7,904,326 ("the '326 patent"); 7,908,304 ("the '304 patent"); and 7,958,024 ("the '024 patent"). Callidus counterclaimed, asserting three of its own patents against Versata. Callidus then filed a first set of petitions seeking post-grant review under the PTO's Transitional Program for Covered Business Method (CBM) Patents, challenging every claim of the '326 patent, every independent claim of the '024 and '304 patents, and several dependent claims of the '024 and '304 patents under 35 U.S.C. § 101. Simultaneously, Callidus sought to stay the district court proceedings pending the Board's review. Declining to consider the stay until the Board decided whether to institute CBM review, the district court set dates for a *Markman* hearing and trial. Versata also identified its asserted claims, some of which were dependent claims not included in Callidus's first set of CBM petitions.

The Board instituted CBM review for each challenged claim in Callidus's first set of CBM petitions. Callidus renewed its motion to stay the district court and also filed its second set of CBM petitions challenging all of the remaining claims of the '024 and '304 patents under § 101. The district court granted a stay as to the '326 patent, but denied it as to the '024 and '304 patents. Callidus filed an interlocutory appeal of the denial of the stay in part.

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**"Stays can be warranted even when a CBM proceeding does not address all asserted patents, claims, or invalidity defenses." Slip op. at 6.**

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On appeal, the Federal Circuit considered each of the four statutory factors identified in § 18 of the AIA and determined that the district court's denial of the stay should be reversed.

The Court first considered whether a stay would simplify the issues and streamline the trial. Rejecting a categorical rule that failing to challenge all asserted claims warrants denial of a stay, the Court explained that a stay "can be warranted even when a CBM proceeding does not address all asserted patents, claims, or invalidity defenses." Slip op. at 6. Under the Court's view, a proper simplification analysis

“would look to what would be resolved by CBM review versus what would remain.” *Id.* at 6-7. Turning to this analysis, the Court first noted that all of the claims were undergoing CBM review because the Board had also instituted review on both sets of Callidus’s petitions. The Court also explained that the statute explicitly allows a petitioner to raise one invalidity defense in CBM review without invoking estoppel as to other defenses in litigation. Balancing these interests, the Court concluded that the district court erred and that the “first factor strongly favors a stay.” *Id.* at 8.

The Court then turned to the second factor of whether discovery is complete and whether a trial date has been set. Rejecting the district court’s conclusion, the Court explained that “generally the time of *filing* the motion will be the relevant stage at which to measure this factor,” but also recognized that “it is entirely appropriate and within the discretion of the district court to wait for the institution decision before ruling on the motion.” *Id.* at 9-10. The Court noted that, whether analyzed at the date of the motion filing or the date of institution, fact discovery was still ongoing and no fact witnesses had been deposed, the close of expert discovery was seven months away, the parties had not filed expert reports or taken expert depositions, neither party had exchanged the proposed terms or claim construction positions, and both the *Markman* hearing and the trial were more than a year away. The Court concluded, therefore, that the district court erred in its analysis and that “the timing factor strongly favors a stay.” *Id.* at 10-11.

The Court then turned to the third factor of whether a stay would unduly prejudice Versata. The Court observed that the district court did not make factual findings on whether Versata would suffer undue prejudice. The Court rejected the district court’s conclusion that Callidus “intended to ‘move forward on its [own] interests’ while staying Versata’s case-in-chief,” explaining that Callidus had sought to stay the entire litigation, not just Versata’s case. *Id.* at 12 (alteration in original). Although the Court declined to consider whether either party would be prejudiced, it noted that “generic concerns,” such as “stale evidence, faded memories, and lost documents,” without more, do not justify a conclusion of undue prejudice. *Id.* at 11 n.6. The Court explained that the “record does not suggest any undue prejudice to Versata or clear tactical advantage to Callidus,” concluding that the district court erred and that “this factor strongly favors a stay.” *Id.* at 12.

The Court last considered whether a stay would reduce the burden of litigation and concluded that “the district court clearly erred in evaluating the burden-of-litigation factor exclusively through [a] backward-looking lens.” *Id.* at 13. According to the Court, “[t]he correct test is one that focuses *prospectively* on the impact of the stay on the litigation, not on the past actions of the parties.” *Id.* The Court explained that, “if Callidus is successful, a stay will relieve the parties and the district court of having to expend substantial resources” on claim construction, noninfringement, and invalidity. *Id.* at 14. Therefore, the Court concluded that this factor also “strongly favors a stay.” *Id.*

The Court then held that “the factors when taken together strongly favor a stay pending CBM review.” *Id.* Accordingly, the Court reversed the district court’s denial of the motion to stay and remanded with instructions to grant the stay as to the ’024 and ’304 patents.

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**December 2014**

### **Looking Ahead**

On December 5, 2014, the Supreme Court granted certiorari in *Cisco Systems, Inc. v. Commil USA, LLC*, No. 13-896, on the question of “[w]hether the Federal Circuit erred in holding that a defendant’s belief that a patent is invalid is a defense to induced infringement under 35 U.S.C. § 271(b).” In the decision below, the Federal Circuit held that “evidence of an accused inducer’s good-faith belief of invalidity may negate the requisite intent for induced infringement.” *Commil USA, LLC v. Cisco Sys., Inc.*, 720 F.3d 1361, 1368 (Fed. Cir. 2013). The Supreme Court will now decide whether this good-faith belief in invalidity can serve as a defense to induced infringement. Stay tuned to future editions of *Last Month at the Federal Circuit* to see how the Supreme Court’s future decision affects induced infringement analyses at the Federal Circuit.

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### **Spotlight Info**

In *Ultramercial, Inc. v. Hulu, LLC*, No. 10-1544 (Fed. Cir. Nov. 14, 2014), the Federal Circuit—on remand from the Supreme Court in light of *Alice Corp. v. CLS Bank International*, 573 U.S. \_\_\_, 134 S. Ct. 2347 (2014)—affirmed the district court’s determination that the asserted patent did not claim patent-eligible subject matter. The Court concluded that “the limitations of the [patent’s] claims do not transform the abstract idea that they recite into patent-eligible subject matter because the claims simply instruct the practitioner to implement the abstract idea with routine, conventional activity. None of these eleven individual steps, viewed ‘both individually and as an ordered combination,’ transform the nature of the claim into patent-eligible subject matter.” Slip op. at 11 (quoting *Alice*, 134 S. Ct. at 2355) (internal quotation marks omitted). See this month’s edition of *Last Month at the Federal Circuit* for a full summary of this decision.

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