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PATENT LAW

✓ *In Re Bilski*, 545 F.3d 943 (Fed. Cir. 2008) (Concepts: Patent law, Computer Programs, Business Method Patents).

By Robert C. Kain¹

The decision in *Bilski*, by the United States Court of Appeals for the Federal Circuit, addressed whether a claimed computer program that described a data manipulation process can constitute patentable subject matter under the U.S. Patent Act, 35 U.S.C. §101 (1952).

The patent examiner and *Bilski*'s counsel confirmed that the patent claims at issue were business method claims neither tied to nor uniquely related to computer hardware or any other machine. In summary, the claims recited:

A method for managing the consumption risk costs of a commodity at a fixed cost comprising the steps of: (a) initiating a series of transactions... wherein said consumers purchase said commodity... (b) identifying market participants for said commodity having a counter-risk position to said consumers; and (c) initiating a series of transactions between said commodity provider and said market participants at a second fixed rate such that said series of market participant transactions balances the risk position of said series of consumer transactions.

545 F.3d 943, 949.

This decision is noteworthy because the Federal Circuit effectively reset 30 years of jurisprudence by rejecting a long line of computer patent law

¹ Mr. Kain is Board Certified by The Florida Bar in Intellectual Property Law, is a Registered Patent Attorney, and incoming Chair of the Intellectual Property Law Certification Committee; He practices law at Kain & Associates, in Fort Lauderdale, and can be contacted at: www.ComplexIP.com.

cases and setting a new standard to determine whether computer programs are patentable processes under 35 U.S.C. §101. The majority in *Bilski* held that a claimed process is surely patent-eligible under § 101 if: “(1) it is tied to a particular machine or apparatus, or (2) it transforms a particular article into a different state or thing.” 545 F.3d at 954. (See *Gottschalk v. Benson*, 409 U.S. 63, 70 (1972).

The *Bilski* Court overruled the 30 year old Freeman-Walter-Abele test previously used to ascertain patentable subject matter (first determine whether the claim recites an algorithm and second determine whether the algorithm is applied, in any manner, to physical elements or process steps), rejected the “useful, concrete and tangible result” test for §101 inquiries, rejected the newer “technical arts” test, a “business method exception” test and a requirement that the claim include “significant physical steps.” *Id.* at 958-60.

The “[t]ransformation and reduction of an article ‘to a different state or thing’ is the clue to the patentability of a process claim that does not include particular machines.” *Bilski*, 545 F.3d at 955 - 56. (quoting *Gottschalk*, 409 U.S. at 69). Since the claim must be viewed as a whole, an apparatus claim, with or without means plus function claim elements, is not “drawn to a process” and therefore such a claim is not subject to the machine-or-transformation test.

“[T]he use of a specific machine or transformation of an article must impose meaningful limits on the claim’s scope to impart patent-eligibility.” *Id.* at 961. A claimed process is patent-eligible if it transforms an article into a different state or thing. “This transformation must be central to the purpose of the claimed process.” *Id.* at 962. The court recognized that transformation of “articles” include changes to classical items such as physical objects and chemical substances. In the information age, the question is whether electronically manipulated data and “business methods... [which] involve the manipulation of even more abstract constructs such as legal obligations, organizational relationships, and business risks” qualify as transforming such data into “a different state or thing.” *Id.* at 962.

Patentable subject matter includes: data processed as a signal tied a machine or system whereby the data packet was indicative of interexchange carriers in a telecommunications system (*AT&T Corp. v. Excel Commc'ns, Inc.*, 172 F.3d 1352, 1355 (Fed. Cir. 1998)); the transformation of digital data which "clearly represent[s] physical and tangible objects" such as bones and organs, "into a particular visual depiction of a physical object on a display" *Bilski*, 545 F.3d 943, 62-63; the transformation of data, representing discrete dollar amounts, processed through a series of mathematical calculations resulting in a final calculation, represents patentable subject matter (citing *State St. Bank & Trust Co. v. Signature Fin. Group*, 149 F.3d 1368, 1373 (Fed. Cir. 1998)).

Not patentable subject matter includes the laws of nature, natural phenomenon and abstract ideas (*Diamond v. Diehr*, 450 U.S. 175, 185 (1981)), mental processes, a method of diagnosing the location of a malfunction in an unspecified multi-component system that assigned a numerical value to each component, mathematic formulas which preempt all uses of an algorithm, insignificant pre- or post-solution activities do not convert an otherwise non-statutory process into patentable subject matter such as the pre-solution step of gathering data, the post-solution steps of recording or storing data, using an algorithm to calculate an alarm limit, or graphically displaying data without transforming the data into a different state or thing. Field of use limitations "are generally insufficient to render an otherwise ineligible process claim patent-eligible" stating that how a process operates on a computer does not establish subject matter patentability. *Bilski*, 545 F.3d at 957.

In conclusion, the "[t]ransformation and reduction of an article 'to a different state or thing' is the clue to the patentability of a process claim that does not include particular machines" and the "transformation must be central to the purpose of the claimed process." *Id.* at 954, 962. The Court adopted a simplified "machine-or-transformation" test which unified the law for computer-related processes leaving open the door for other new tests since the Court is unsure about more abstract constructs of legal obligations, organizational relationships, and business risks.

✓ *Net MoneyIn, Inc. v. Verisign, Inc.*, 545 F.3d 1359 (Fed. Cir. 2008)
(Concepts: Patents, Computer, Credit Card Transactions).
By Robert C. Kain

In *Net MoneyIn, Inc. v. Verisign, Inc.*, 545 F.3d 1359 (Fed. Cir. 2008), the Federal Circuit Court of Appeals affirmed a grant of summary judgment, invalidating computer-related patent claims under 35 U.S.C. § 112 (1975), because certain “means plus function” claim language was not described in the patent “specification” and that omission caused the claim to be indefinite under the Patent Statute. The specification failed to describe the corresponding structure, material, or acts for the “means plus function” claim language in the computer system claim. The Patent Statute requires that the “claim shall be construed to cover the corresponding structure, material, or acts described in the specification,” 35 U.S.C. § 112. Because the specification did not describe the corresponding structure, material, or acts, the claim was invalid.

Net MoneyIn has a patent for a computer related system which processes credit card transactions over the Internet wherein an intermediary “payment processing” or “financial processing” entity which supplements the conventional four entity transaction model embodied by (a) the customer, (b) the merchant, (c) the merchant’s bank, and (d) the credit card issuing bank.

Defendant Verisign argued that the specification did not disclose the statutorily required “corresponding structure, material, or acts” required for a portion of claim element the “means for generating an authorization indicia,” in the first bank computer.

The use of “means” in the claim raises a presumption that the Section 112 statutory requirement must be met. *Net MoneyIn*, 545 F. 3d at 1366 (citing *Envirco Corp. v. Clestra Cleanroom, Inc.*, 209 F.3d 1360, 1364 (Fed. Cir. 2000)). The presumption is rebutted, however, “if the claim itself recites sufficient structure to perform the claimed function.” *Id.* (See also *Sage Prods., Inc. v. Devon Indus.*, 126 F.3d 1420, 1427-28 (Fed. Cir. 1997) “[W]here a claim recites a function, but then goes on to elaborate sufficient structure, material, or acts

within the claim itself to perform entirely the recited function, the claim is not in means-plus-function format”).

Although patentee Net MoneyIn argued that the claim itself had enough structure to rebut the presumption, since persons of ordinary skill in the art would know how to construct a structure for generating the bank’s authorization indicia, the Court agreed with Defendant Verisign that “because of the wide variety of types and classes of computers in existence, each being configurable in a variety of different ways using many different programming languages,” there is not enough structure in the claim. *Net MoneyIn*, 545 F. 3d at 1366. Further, the claim states that the bank computer “includes” the means for “generating an authorization indicia.” *Id.* Therefore, something more than a general purpose computer must be disclosed and discussed. “[T]here must be a recitation of structure that is a component of the bank computer to rebut the presumption. The claim contains no such recitation.” *Id.*

The Court then reviewed the patent specification. Although not discussed by the Court, a review of the Net MoneyIn’s U.S. Patent No. 5,822,737 (filed Oct. 13, 1998), reveals that the drawings do not show an authorization functional block in the bank’s computer and the term “bank computer” is used only three times in the specification. The specification states: “In a send 37D, mode, the payment processing computer contacts the bank computer and determines if the credit card is valid and if the amount is available. If the charge is authorized, the screen changes to 30C in which the order window 36 has been replaced with authorization window 38 which shows that the charge has been accepted 39A, the transaction no. (A1483) 39B, and the password (GO) 39C which the consumer is to use with the merchant.” U.S. Patent No. 5,822,737, column 6, lines 23-29.

Verisign argued that there was no algorithm to show the structure or acts used by the bank’s general purpose computer. The Court has “consistently required that the structure disclosed in the specification be more than simply a general purpose computer or microprocessor.” 545 F. 3d at 1367 (citing *Aristocrat Techs. Austl. Pty Ltd. v. Int’l Game Tech.*, 521 F.3d 1328, 1333 (Fed. Cir. 2008)). “Because general

purpose computers can be programmed to perform very different tasks in very different ways, simply disclosing a computer as the structure designated to perform a particular function does not limit the scope of the claim to ‘the corresponding structure, material, or acts’ that perform the function, as required by section 112 paragraph 6.” *Id.* “Thus, in a means-plus-function claim ‘in which the disclosed structure is a computer, or microprocessor, programmed to carry out an algorithm, the disclosed structure is not the general purpose computer, but rather the special purpose computer programmed to perform the disclosed algorithm.’” *Id.* (citing *WMS Gaming, Inc. v. Int’l Game Tech.*, 184 F.3d 1339, 1349 (Fed. Cir. 1999)). “Consequently, a means-plus-function claim element for which the only disclosed structure is a general purpose computer is invalid if the specification fails to disclose an algorithm for performing the claimed function.” *Net MoneyIn*, 545 F. 3d at 1367.

The Court found that the patentee failed to disclose an algorithm that generates the authorization indicia used by the general purpose bank computer. In a footnote, the Court reported counsel’s statements at oral argument that “conceded that ‘[t]here is nothing in the written description that expressly states what is going on inside that bank computer.’” *Id.* at 1367, fnt 3.

The *Net MoneyIn* case illustrates the importance of describing in the specification and/or the drawings functional blocks or hardware to support all “means plus function” claim elements in a patent claim.

✓ *Egyptian Goddess, Inc. v. Swisa, Inc.*, 543 F.3d 665 (Fed. Cir. 2008) (Concepts: Patent Infringement Test, Novelty Test, Design Patent Infringement).

By Robert C. Kain

In September 2008, the Federal Circuit Court of Appeals in *Egyptian Goddess, Inc. v. Swisa, Inc.*, 543 F.3d 665 (Fed. Cir. 2008) revised the long-standing test for design patent infringement. The Court – which generally decides all patent appeals – explained that plaintiff’s patent claimed a design for a nail buffer, which consisted of a rectangular,

hollow tube that had a square cross-section and featured buffer surfaces on three of its four sides, whereas defendant's accused product consisted of a rectangular, hollow tube with a square cross-section, but featured buffer surfaces on all four of its sides. *Id.* at 668. The single piece of "prior art" consisted of a patent by Nailco that contained many of the elements of plaintiff's design. The Nailco prior art disclosed a triangular nail buffer with an open hollow body, raised rectangular pads, and open corners. The only element in plaintiff's patent not present in the Nailco prior art patent was the addition of a fourth side without a pad although plaintiff's design was rectangular and Nailco's design was triangular. Because defendant's accused product did not incorporate the "point of novelty" in plaintiff's patent – a fourth side without a pad – the trial court concluded that there was no infringement under the point of novelty test.

En banc, the Federal Circuit addressed the following issues, all in a negative manner: (a) whether the long-standing "point of novelty" test should continue to be used as a test for infringement of a design patent; (b) whether the Court should adopt a "non-trivial advance" test as a way to determine whether a particular design feature qualifies as a point of novelty; and (c) whether District Courts even should perform formal "claim construction" in design patent cases.

Under prior law, to establish infringement of a "design patent," the patentee applied the "ordinary observer" test explained in *Gorham Co. v. White*, 81 U.S. 511 (Fla. 1871) and also applied the "point of novelty" test from *Litton Sys., Inc. v. Whirlpool Corp.*, 728 F.2d 1423 (Fed. Cir. 1984). *Gorham* states (at 81 U.S. at 528):

[I]f, in the eye of an ordinary observer, giving such attention as a purchaser usually gives, two designs are substantially the same, if the resemblance is such as to deceive such an observer, inducing him to purchase one supposing it to be the other, the first one patented is infringed by the other.

Egyptian Goddess rejects *Litton Systems'* point of novelty test that "the accused device must appropriate the novelty in the patented device

which distinguishes it from the prior art.” *Egyptian Goddess*, 543 F.3d at 671. (See *Litton Systems*, 728 F.2d at 1444). Under the Federal Circuit’s new test:

When the differences between the claimed and accused design are viewed in light of the prior art, the attention of **the hypothetical ordinary observer** will be drawn to those aspects of the claimed design that differ from the prior art. And when the claimed design is close to the prior art designs, small differences between the accused design and the claimed design are likely to be important to the eye of the hypothetical ordinary observer.

543 F.3d at 676 [emphasis added].

The “ordinary observer” test must now be viewed “through the eyes of an observer familiar with the prior art.” *Id.* at 677. “If the claimed design consists of a combination of old features that creates an appearance deceptively similar to the accused design, even to an observer familiar with similar prior art designs, a finding of infringement would be justified. Otherwise, infringement would not be found.” *Id.*, at 677, 78.

The Court also defined the following defensive, non-infringement position: “In some instances, the claimed design and the accused design will be sufficiently distinct that it will be clear without more that the patentee has not met its burden of proving the two designs would appear ‘substantially the same’ to the ordinary observer, as required by *Gorham*.” *Id.* at 678. However:

[W]hen the claimed and accused designs are not plainly dissimilar, resolution of the question whether **the ordinary observer** would consider the two designs to be substantially the same will benefit from a comparison of the claimed and accused designs with the prior art,... [and] differences between the claimed and accused designs that might not be noticeable in the abstract can

become significant to the hypothetical ordinary observer who is conversant with the prior art.

Id. [emphasis added].

The Court further ruled that: the new test for infringement should not be applied to determine whether the design patent is "valid;" the new test does not change the burden of proof that the patentee must prove "infringement; and federal District Courts need not analyze and construe "claims" in a design patent as is required for "utility" patents. Consequently, the Federal Circuit held that no reasonable fact finder could find that plaintiff met its burden to prove "that **an ordinary observer**, taking into account the prior art, would believe the accused design to be the same as the patented design." *Id.* at 682 [emphasis added].

EDITOR'S NOTE: The Court made clear that a hypothetical "ordinary observer" of the product protected by a design patent would view the plaintiff's design and the accused product, and would be presumed knowledgeable about the prior art. Consequently there would be no need for a judge to explain a visual representation in legal jargon, because for a consumer product such as a nail buffer sold in retail chain drug stores and beauty shops, the hypothetical **ordinary observer** probably would be the typical target market retail purchaser, who would view the products in the same manner in which those products would be packaged and sold (on a display rack surrounded by other products sold at retail); *i.e.* in ordinary circumstances, not in a courtroom. This fresh dose of reality elevates what actually appears to the eye rather than to an abstract comparison based on a verbalization uttered by the court. It requires a jury to act reasonably when comparing the products on a sales rack, rather than to give undue emphasis to barely noticeable, visually insignificant features, guided by a court's distracting, perhaps erudite construction of what the plaintiff's patent lawyer claimed using wordy, perhaps confusing legalize. This change in the law is fairer to patentees. It also reduces the role of "expert" witnesses in most design patent cases, because any juror presumably is equally "qualified as an expert by knowledge, skill, experience, training, or education" to shop for a nail buffer on a

sales rack. "Federal Rules of Evidence," Rule 702 (2001); see *Sundance, Inc. v. Demonte Fabricating Ltd.*, 550 F.3d 1356 (Fed. Cir. Dec. 24, 2008), and see, Stephen Nagin case note: *KSR Int'l. Co. v. Teleflex, Inc.*, 550 U.S. 398, 75 U.S.L.W. 4289, 2007 U.S. LEXIS 4745, 127 S.Ct. 1727, 82 USPQ2d (BNA) 1385 (2007) (Concepts: patents, obviousness), *The Business Law Section Journal, Case Law Update 2008* at 229. What the Federal Circuit tacitly has done in *Egyptian Goddess* is to position the law on "infringement" of a design patent in confluence with the law on "deception" enunciated by the Federal Trade Commission in *Cliffdale Assocs.*, 103 F.T.C. 110, 164-65 (1984); see generally *Federal Trade Commission Policy Statement on Deception, appended to Cliffdale Assocs.*, 103 F.T.C. at 174-83. Perhaps the Court would have better formulated its "ordinary observer" standard in *Egyptian Goddess* by holding that a product infringes a design patent if it is likely to mislead an "ordinary observer" acting reasonably under the circumstances to purchase the accused product to the detriment of the patentee.

TRADEMARK LAW

Hyatt Corp. v. Epoch-Florida Capital Hotel Partners, Ltd., Case No. 6:07-cv-1260-Orl-KRS, 2008 U.S. Dist. LEXIS 12693, at *1 (M.D. Fla. February 20, 2008) (Concepts: Parent-Subsidiary, Tortious Interference with Business Relationships).

By Elana Sbarro²

In May of 1999, Epoch-Florida Capital Hotel Partners ("Florida Capital") entered into a franchise agreement with AmeriSuites Franchising, L.L.C. ("AmeriSuites") to operate a hotel in Kissimmee, Florida. In January of 2005, Hyatt Corporation ("Hyatt") purchased AmeriSuites. Following the acquisition, Hyatt decided that it would no longer operate the "AmeriSuites" brand and no longer offer AmeriSuites franchises. Instead, Hyatt decided to operate the "Hyatt Place" brand and qualifying AmeriSuites franchisees could rebrand to

² Ms. Sbarro practices law at DLA Piper in Hallandale Beach and can be contacted at e_twin00@yahoo.com.