APPLE TRIUMPHS AGAIN:
TRANSFORMING A $530 MILLION DOLLAR VERDICT INTO A DISTINCT MEMORY

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A little more than two years ago, a Texas jury awarded Smartflash, LLC, over $530 million in damages against Apple, Inc. Smartflash[1] claimed that Apple had infringed its three patented inventions, entitled "Data Storage and Access Systems," that generally related to a portable data carrier for storing and paying for data and to computer systems for providing access to data to be stored." Apple appealed. Yesterday, the Court of Appeals for the Federal Circuit ("***CAFC***") concluded that the asserted claims recited patent-ineligible subject matter under 35 U.S.C. § 101, a conclusion that wiped out that sizeable verdict.

The U.S. Supreme Court has held that the broad language of § 101 is subject to an implicit exception for "laws of nature, natural phenomena, and abstract ideas." Applying the mandatory two-step analysis announced in the seminal case, ***Alice Corp. v. CLS Bank Int'l***,[2] the District Court had found that though the patent claimed abstract ideas (step 1), the claims recited meaningful limitations that transformed the abstract idea into a patent eligible invention because the claims "recited specific ways of using distinct memories, data types, and use rules that amount to significantly more than the underlying abstract idea" (step 2). However, in a non-precedential opinion,[3] the Federal Circuit found otherwise and reversed.

At step two, an 'inventive concept' that transforms the nature of the claim into patent-eligible subject matter must be identified. Well-understood, routine, and conventional activity already engaged in by the relevant community is insufficient. For claims purportedly directed to an improvement of computer functionality (as in the Smartflash patents), the analysis hinges on whether the relevant claims focus on a "specific asserted improvement in computer capabilities .

[1] A non-practicing entity ("NPE"), Smartflash had seven patents in its portfolio at the time and also sued Samsung, Google, and Amazon for patent infringement. These patents in the portfolio were: U.S. Patent Numbers 8,061,598; 8,118,221; 8,336,772; 7,942,317; 8,033,458; 8,794,516; and 7,334,720.

[2] 134 S. Ct. 2347, 2355 (2014) (establishing the two-step framework for determining patent eligibility by assessing (1) whether the claim is directed to a patent-ineligible concept, i.e., a law of nature,a natural phenomenon, or an abstract idea; and if so, (2) whether the elements of the claim, considered "both individually and 'as an ordered combination,'" add enough to "'transform the nature of the claim' into a patent eligible application").

[3] Non-precedential opinions are binding only on the named parties in a particular case. Notably, under the rules of the CAFC, it may look to non-precedential dispositions for guidance or persuasive reasoning, but will not give non-precedential dispositions the effect of binding precedent. ***See* FED. CIR. R. 32.1** (abolishing previous Rule 47.6(b), which prohibited citation to any non-precedential opinion)**.**

. . or, instead, on a process that qualifies as an 'abstract idea' for which computers are invoked merely as a tool?"[4] The Federal Circuit found no inventive concept.

Rather, the CAFC first noted that Smartflash had abandoned the assertion that the claims recited "distinct memory types," specifically "parameter memory" and "content memory," an assertion that the District Court had used to find inventive concept. Additionally, the unanimous panel illustrated that the type of Internet activity found ineliglbe in ***Ultramercial, Inc. v. Hulu, LLC*** was "precisely" the same with the Smartflash patents.[5] Finally, Smartflash contended that patent eligibility could also be found in "providing distinct advantages over alternatives." The Court rejected that argument by explaining that the test for eligibility is "inventive concept sufficient to transform the nature of the claim," not (distinct) advantages.

Typically, Smartflash would almost certainly seek certiorari to the US Supreme Court and/or petition for rehearing *en banc* at the Federal Circuit; a probabilistic decision tree (as a function of the sizeable verdict) would almost certainly militate for such conduct. However, on January 27, 2017, the Patent Trial and Appeal Board (PTAB) refused to reconsider their prior decisions that invalidated claims in the three patents at issue against Apple that had been subject to AIA (America Invents Act) review.[6] Accordingly, this is probably the end of the road for Smartflash and its sizeable verdict will become only a 'distinct memory.'

[4] The following provides useful guidance on patent eligibility as it concerns § 101: ***Enfish, LLC v. Microsoft Corp.***, 822 F.3d 1327, 1336–37 (Fed. Cir. 2016) (finding computer-implemented system for improving computer search and retrieval systems using self-referential tables patent-eligible); ***DDR Holdings, LLC v. Hotels.com, L.P.,*** 773 F.3d 1245, 1258-59 (Fed. Cir. 2014) (finding claims addressing the problem of retaining website visitors patent eligible because they transformed the manner in which a hyperlink typically functions to resolve a problem that had no "pre-Internet analog"); ***Ultramercial, Inc. v. Hulu, LLC***, 772 F.3d 709, 716 (Fed. Cir. 2014) (finding computer-implemented system for "using advertising as a currency [on] the Internet" to be ineligible); ***buySAFE, Inc. v. Google, Inc***., 765 F.3d 1350, 1352, 1355 (Fed. Cir. 2014) (finding computer-implemented system for guaranteeing performance of an online transaction to be ineligible); ***CyberSource Corp. v. Retail Decisions,Inc***., 654 F.3d 1366, 1370 (Fed. Cir. 2011) (finding computer-implemented system for "verifying the validity of a credit card transaction over the Internet" to be ineligible).

[5] Judge Lourie, who authored the opinion in ***Ultramercial***, was also a member of the ***SmartFish*** panel.

[6] Smartflash had argued, *inter alia*, that PTAB overlooked two recent Federal Circuit decisions that found the claims in both of those cases not invalid under ***Alice***. ***See McRo Inc. v. Bandai Namco Games America Inc.*** 837 F.3d 1299 (Fed. Cir. 2016) (holding that the ordered combination of claimed steps, using unconventional rules that relate subsequences of phonemes, timings, and morph weight sets, was not directed to an abstract idea and was thus patent eligible); ***Amdocs (Israel) Ltd. v. Openet Telecom Inc***., 841 F.3d 1288 (Fed. Cir. 2016) (using, in a 2-1 decision, many recent CAFC cases to show that claims relating to solutions for managing accounting and billing data over large, disparate networks recited an inventive concept because they contained "specific enhancing limitation[s] that necessarily incorporated the invention's distributed architecture—an architecture providing a technological solution to a technological problem").