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## Intellectual Property - Patent Law - The Court of Appeals for the Federal Circuit's Questionable Opinion in IPXL Holdings, L.L.C. v. Amazon.Com, Inc. Creates More Questions Than Answers Regarding Hybrid Claims

Bradley Birchfield

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INTELLECTUAL PROPERTY—PATENT  
LAW—THE COURT OF APPEALS FOR THE  
FEDERAL CIRCUIT’S QUESTIONABLE  
OPINION IN *IPXL HOLDINGS, L.L.C. v.*  
*AMAZON.COM, INC.* CREATES MORE  
QUESTIONS THAN ANSWERS REGARDING  
HYBRID CLAIMS

*Bradley Birchfield\**

IN its recent decision in *IPXL Holdings, L.L.C. v. Amazon.com, Inc.*, the United States Court of Appeals for the Federal Circuit concluded that a claim in a patent owned by plaintiff IPXL Holdings (“IPXL”) was invalid due to being indefinite under 35 U.S.C. § 112<sup>1</sup> and therefore not infringed by defendant Amazon.com (“Amazon”).<sup>2</sup> In an issue of first impression, the Federal Circuit concluded that the claim was invalid because it contained both a system and a method for using that system.<sup>3</sup> According to the court, this type of claim, also referred to as a “hybrid” claim, was not sufficient to apprise a person of ordinary skill in the art of its scope, and thus failed to meet the statutory requirements for validity.<sup>4</sup> While the ultimate decision of the Federal Circuit regarding the hybrid claim was correct, the reasoning and the sparse legal authority upon which it relied to reach its decision offers little guidance for future patent cases involving similar hybrid claims. The Federal Circuit has opened the door for the invalidation of countless existing patents containing similar hybrid claims because of its questionable opinion in this case.

IPXL is the owner of United States Patent No. 6,149,055 (“the ‘055 patent”).<sup>5</sup> This patent, entitled “Electronic Fund Transfer or Transaction System,” is directed toward electronic systems such as automated teller

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\* J.D. Candidate 2008, SMU Dedman School of Law.

1. The second paragraph of this section of the patent code is the relevant paragraph for this case. It reads: “The specification shall conclude with one or more claims particularly pointing out and distinctly claiming the subject matter which the applicant regards as his invention.” 35 U.S.C. § 112 (2000).

2. *IPXL Holdings, L.L.C. v. Amazon.com, Inc.*, 430 F.3d 1377, 1384 (Fed. Cir. 2005).

3. *Id.*

4. *Id.*

5. *Id.* at 1378.

systems or point-of-sale systems that facilitate financial transactions.<sup>6</sup> The '055 patent essentially provides a system that allows users to quickly and easily execute financial transactions by storing, predicting, and presenting information to the user on a single screen in an efficient manner.<sup>7</sup> Claim 25 of the '055 patent, the hybrid claim at issue in this case, reads: "The system of claim 2 wherein the predicted transaction information comprises both a transaction type and transaction parameters associated with that transaction type, and the user uses the input means to either change the predicted transaction information or accept the displayed transaction type and transaction parameters."<sup>8</sup> IPXL boasts that the system patented by the '055 patent offers numerous advantages over prior systems, including increased flexibility, ease of use, and the ability to quickly complete a transaction on a single user screen.<sup>9</sup>

Amazon is the owner and operator of a popular and well-known Internet retail website at *www.amazon.com*.<sup>10</sup> Amazon sells a large variety of retail items through its website, such as books, music, and consumer electronics.<sup>11</sup> Amazon offers its patented "1-Click" feature to facilitate easy ordering through its website.<sup>12</sup> This feature allows users who have previously entered personal information on Amazon's website, such as a credit card number, to quickly and easily place an online order without having to enter the information again.<sup>13</sup> Amazon stores the information previously entered by the user, thereby allowing an order to be easily placed with only a single click of the mouse button.<sup>14</sup> The order is automatically entered into Amazon's system after this one click, and will be finalized after a ninety-minute waiting period during which the user can cancel or modify the order.<sup>15</sup>

IPXL sued Amazon on January 22, 2004, alleging that Amazon's "1-Click" feature infringed claim 25 and several other claims of its '055 patent.<sup>16</sup> On June 23, 2004, both IPXL and Amazon moved for summary judgment.<sup>17</sup> Amazon moved for summary judgment on the ground that the '055 patent was invalid and not infringed, and IPXL moved for summary judgment that the '055 patent was non-obvious.<sup>18</sup> The United States District Court for the Eastern District of Virginia granted summary judgment for Amazon, holding *inter alia* that Amazon's "1-Click"

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6. *Id.* at 1378-79.

7. *Id.* at 1379; *IPXL Holdings, L.L.C. v. Amazon.com, Inc.*, 333 F. Supp. 2d 513, 516 (E. D. Va. 2004).

8. *IPXL*, 430 F.3d at 1384.

9. Brief of Plaintiff-Appellant *IPXL Holdings, L.L.C.* at 5-6, *IPXL*, 430 F.3d 1377 (No. 05-1009).

10. *IPXL*, 333 F. Supp. 2d at 516.

11. *Id.*; see <http://www.amazon.com>.

12. *IPXL*, 333 F. Supp. 2d at 516.

13. *Id.*

14. *IPXL*, 430 F.3d at 1379.

15. *Id.*

16. *IPXL*, 333 F. Supp. 2d at 516.

17. *Id.*

18. *Id.*

feature did not infringe IPXL's '055 patent and that all of the claims at issue in the patent were invalid.<sup>19</sup> IPXL appealed the case to the Court of Appeals for the Federal Circuit, which also held the claims invalid and affirmed the district court's grant of summary judgment for Amazon.<sup>20</sup>

The Federal Circuit agreed with the district court and held claim 25 of the '055 patent to be invalid since it was indefinite under 35 U.S.C. § 112.<sup>21</sup> The primary reason the court cited for finding the claim indefinite was that the claim was ambiguous due to its content and was not sufficiently precise to apprise a competitor of its scope.<sup>22</sup> Because the claim recited both a system and a method for using that system, the Federal Circuit found that it would be unclear when infringement of the claim would actually occur.<sup>23</sup>

The Federal Circuit relied primarily on a decision of the Board of Patent Appeals and Interferences of the Patent and Trade Office ("PTO"), *Ex parte Lyell*, in reaching its decision.<sup>24</sup> In *Lyell*, the court found that reciting "both an apparatus and a method of using that apparatus renders a claim indefinite under section 112, paragraph 2."<sup>25</sup> The hybrid claim at issue in *Lyell* was similar to claim 25 of this case, also claiming both an apparatus and a method for using that apparatus.<sup>26</sup> The claim in *Lyell* reads: "[a]n automatic transmission tool in the form of a workstand and method for using same comprising . . ."<sup>27</sup> The *Lyell* court found that although certain hybrid claims are permissible in the United States, the claim at issue was properly rejected because it violated 35 U.S.C. § 101 by overlapping two statutory classes of invention.<sup>28</sup>

In addition to *Lyell*, the Federal Circuit also relied upon the PTO's *Manual of Patent Examination Procedure* ("MPEP") and a patent law treatise to support its assertion that claims containing both an apparatus and a method of using the apparatus are ambiguous and should be rejected under 35 U.S.C. § 112.<sup>29</sup> The cited MPEP section states that "[a] single claim which claims both an apparatus and the method steps of using the apparatus is indefinite under 35 U.S.C. 112, second paragraph."<sup>30</sup> The patent law treatise cited by the court likewise cautions to "[n]ever mix claim types to different classes of invention in a single claim."<sup>31</sup>

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19. *IPXL*, 430 F.3d at 1378.

20. *Id.*

21. *Id.* at 1383-84.

22. *Id.* at 1384.

23. *Id.*

24. *Id.*

25. *Id.*; *Ex parte Lyell*, 17 U.S.P.Q.2d (BNA) 1548, 1549 (Bd. Pat. App & Interf. 1990).

26. *Lyell*, 17 U.S.P.Q.2d at 1549.

27. *Id.*

28. *Id.* at 1552.

29. *IPXL*, 430 F.3d at 1384.

30. U.S. PATENT & TRADE OFFICE, U.S. DEP'T OF COMMERCE, MANUAL OF PATENT EXAMINING PROCEDURES § 2173.05(p)(II) (Rev. ed. 2006).

31. ROBERT C. FABER, LANDIS ON MECHANICS OF PATENT CLAIM DRAFTING § 7:2 (2003).

Applying the standards taught in *Lyell*, the MPEP, and the treatise to claim 25 in this case, the Federal Circuit needed surprisingly little analysis to conclude that the claim was exactly the same as the claim in *Lyell*—a claim containing both a system and a method for using that system.<sup>32</sup> The court, in an apparently easy decision, delivered its analysis and application of the law to claim 25 in only two sentences:

Thus, it is unclear whether infringement of claim 25 occurs when one creates a system that allows the user to change the predicted transaction information or accept the displayed transaction, or whether infringement occurs when the user actually uses the input means to change transaction information or uses the input means to accept a displayed transaction. Because claim 25 recites both a system and the method for using that system, it does not apprise a person of ordinary skill in the art of its scope, and it is invalid under section 112, paragraph 2.<sup>33</sup>

Because this was an issue of first impression in the Federal Circuit, one would expect that the court would have performed a more thorough analysis of the hybrid claim at issue. By basing its decision on only law gathered from one case, the MPEP, and a patent treatise, the court overlooked other possible interpretations of the hybrid claim and failed to provide adequate guidance for future hybrid claim cases.

First, by providing such little analysis of claim 25 of the '055 patent, the Federal Circuit failed to give sufficient guidance to exactly what was wrong with the hybrid claim. The crux of the court's decision was that the claim was not specific enough to give notice to competitors of its scope and thus was indefinite under 35 U.S.C. § 112.<sup>34</sup> Competitors, in other words, would not know whether they infringed the claim by making a similar system, or by using the system in a similar manner as described in the claim. Unfortunately that was the extent of the court's analysis of the claim. Other than pointing out that the claim contained both a system and method for using that system, the court discussed nothing else specific about the language used in the claim. The court, for example, indicated that the phrase in the claim "the user uses the input means" was the offending method language in the hybrid claim.<sup>35</sup> But the court did not discuss the possibility that this phrase could be something other than a method claim.

One such possibility the court should have considered is that the language constitutes a functional limitation. A functional limitation is "an attempt to define something by what it does, rather than by what it is"<sup>36</sup>

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32. *IPXL*, 430 F.3d at 1384.

33. *Id.*

34. *Id.*

35. *Id.*

36. *Collegenet, Inc. v. XAP Corp.*, 442 F. Supp. 2d 1036, 1062-63 (D. Or. 2006); U.S. PATENT & TRADEMARK OFFICE, *supra* note 30, § 2173.05(g).

and by itself does not render a claim improper.<sup>37</sup> It appears that this language of the claim could be construed as a functional limitation since it is describing how IPXL's claimed system actually works. Indeed, this is what IPXL argued in its brief.<sup>38</sup> But since the court did not specifically address this language of the hybrid claim, we are left to guess what they were thinking. Was it a method claim, and not a functional limitation since the phrase "the user uses" indicates an actual person performing the act, as some courts have assumed,<sup>39</sup> or are all words of action considered method claims regardless of who or what is performing the action? By not adequately addressing the specific language of the claim, the court left the door open for countless challenges to all existing patents containing hybrid claims regardless of language, and left us with the burning question: Are all hybrid claims invalid, or just the ones where a person is performing an action?

When the court declared it would be unclear when infringement of claim 25 would occur due to its inclusion of both a system and a method claim, it failed to discuss the implications of a well-known rule for patent infringement known as the "all-elements" rule.<sup>40</sup> The court stated that it would be unclear if a competitor infringed the claim by creating a similar device of claim 25 or by simply using a similar device.<sup>41</sup> The all-elements rule of claim infringement might have helped the court to answer this question. This rule states that in order for a court to find infringement, each and every element of the claim at issue in the plaintiff's patent must be present in the defendant's device.<sup>42</sup> This rule has been in use by the Federal Circuit since 1985 when the court declared that "each element of a claim is material and essential, and that in order for a court to find infringement, the plaintiff must show the presence of every element or its substantial equivalent in the accused device."<sup>43</sup> The Supreme Court also approved this rule in 1997 when it stated that "[e]ach element contained in a patent claim is deemed material to defining the scope of the patented invention . . . ."<sup>44</sup> This rule furthermore applies equally to method or process claims. The Federal Circuit court has stated that

[i]nfringement of process inventions is subject to the "all-elements rule" whereby each of the claimed steps of a patented process must be performed in an infringing process, literally or by an equivalent of

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37. *Collegenet*, 442 F. Supp. 2d at 1062-63; *Toshiba Corp. v. Juniper Networks, Inc.*, No. Civ. 03-1035-SLR, 2006 WL 1788479, \*4 (D. Del., 2006); U.S. PATENT & TRADEMARK OFFICE, *supra* note 30, § 2173.05(g).

38. Brief of the Plaintiff-Appellant IPXL Holdings, L.L.C., *supra* note 9, at 50-51.

39. See *Collegenet*, 442 F. Supp. 2d at 1062.

40. *Collaboration Prop., Inc. v. Tandberg ASA*, No. C 05-01940 MPH, 2006 WL 1752140, at \*7 n.3 (N.D. Cal. June 23, 2006).

41. *IPXL*, 430 F.3d at 1384.

42. See 5A-18DONALD S. CHISUM, CHISUM ON PATENTS § 18.03[4][a] (2006).

43. *Lemelson v. United States*, 752 F.2d 1538, 1551 (Fed. Cir. 1985); see also *Inpro II Licensing, S.A.R.L. v. T-Mobile USA, Inc.*, 450 F.3d 1350, 1358 (Fed. Cir. 2006) ("To establish infringement, every element and limitation of the claim must be present in the accused device, literally or by an equivalent.").

44. *Warner-Jenkinson Co. v. Hilton Davis Chemical Co.*, 520 U.S. 17, 29 (1997).

that step, with due attention to the role of each step in the context of the patented invention.<sup>45</sup>

Therefore, the court's simple declaration that claim 25 of the '055 patent was invalid due to the inability to distinguish how it could be infringed is questionable at best. By simply applying the all-elements rule for infringement, the court could have concluded that a competitor would be required to possess a similar system as well as to use that system in a similar manner in order for infringement to be found. Applied to this case, IPXL could not win its infringement case unless Amazon's "1-Click" feature was sufficiently equivalent to IPXL's claimed system and Amazon used its feature in the same way as claimed by IPXL in claim 25 of its '055 patent. The court instead neglected to even consider the all-elements rule, leaving the reader to ponder just how ambiguous the claim really is.

Instead of relying solely on the reasoning that the claim was invalid due to being indefinite under 35 U.S.C. § 112, the Federal Circuit should have provided an analysis and application of 35 U.S.C. § 101 when examining claim 25 of the '055 patent. This section of Title 35, which was not specifically cited by the court, reads: "Whoever invents or discovers any new and useful *process, machine, manufacture, or composition* of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title."<sup>46</sup> It is well-settled law that a patent must fall within one of the express statutory categories listed in this section in order to be valid.<sup>47</sup> Additionally, courts have interpreted the language of this section to mean that Congress drafted this section "so as to set forth the statutory classes of invention in the *alternative only*."<sup>48</sup> The precedent has also been set that patent claims overlapping two of these statutory classes may be rejected under 35 U.S.C. § 101.<sup>49</sup> In a 2001 case, for example, this court performed an extensive analysis of 35 U.S.C. § 101 and found:

As interpreted by the courts, apparatuses (which includes "systems") and processes (or "methods") are both classes of patent eligible subject matter under 35 U.S.C. § 101 and may both be claimed in the

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45. *Canton Bio-Medical, Inc. v. Integrated Liner Tech., Inc.*, 216 F.3d 1367, 1370 (Fed. Cir. 2000).

46. 35 U.S.C.A. § 101 (West 2005) (emphasis added).

47. *See Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 483 (1974); *see also In re Bonczyk*, 10 F. App'x 908, 910 (Fed. Cir. 2001) ("Congress has specified the types of subject matter that may be patented in § 101. Patentable subject matter must fall within one of these statutory categories.").

48. *Ex parte Lyell*, 17 U.S.P.Q.2d 1548, 1551 (Bd. Pat. App. & Interf. 1990) (emphasis added).

49. *Id.* at 1551-52; *see U.S. PATENT & TRADEMARK OFFICE, supra* note 30, § 2173.05(p) (2006)

(Such claims may also be rejected under 35 U.S.C. 101 based on the theory that the claim is directed to neither a "process" nor a "machine," but rather embraces or overlaps two different statutory classes of invention set forth in 35 U.S.C. 101 which is drafted so as to set forth the statutory classes of invention in the alternative only.).

same patent. This occurs, for example, in patents that claim both an apparatus and a method of using the apparatus. Such patents contain separate sets of claims directed towards the two different classes of invention. However, “combining two separate statutory classes of invention in a single claim . . . is not sufficiently precise to provide competitors with an accurate determination of the ‘metes and bounds’ of protection involved.”<sup>50</sup>

The court in this case should have followed its previous example and analyzed claim 25 of the ‘055 patent in light of 35 U.S.C. § 101. Had it done so, the court would likely have arrived at the same conclusion that the claim was invalid, but would have been supported by more sound reasoning.

In conclusion, for an issue of first impression, the Federal Circuit in this case failed to impress upon anyone a clear understanding of hybrid claims. While the court ultimately came to the right decision regarding the hybrid claim at issue, it overlooked key patent law concepts and failed to provide adequate guidance needed for proper hybrid claim interpretation. The invalidation of many existing hybrid claims is now a real possibility because the court did not give an adequate explanation as to what exactly it found wrong with the language of the hybrid claim. Countless existing patents containing similar hybrid claims, including most software patents, are now vulnerable under the Federal Circuit’s opinion in this case. Patent claim drafting and interpretation were already difficult, and the Federal Circuit did little to help either with its opinion in this case.

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50. IPXL Holdings, L.L.C. v. Amazon.com, Inc., 333 F. Supp. 2d 513, 543 (quoting *Lyell*, 17 U.S.P.Q.2d at 1550).

