

IP Cases To Watch In 2008

By **Erin Coe**, erin.coe@portfoliomedia.com

Tuesday, Jan 01, 2008 --- The Supreme Court, the Federal Circuit and the district courts are gearing up to weigh in on a number of intellectual property disputes in 2008, including cases that could redefine patent-holder rights on licensing and change how accused infringers defend against willfulness claims.

Here's a look at five of those cases.

1. Quanta Computer Inc. et al. v. LG Electronics Inc.

Background

The Supreme Court is set to hear oral arguments in mid-January in this long-running patent dispute over the scope of the patent-exhaustion doctrine and whether a patent holder has the right to restrict the downstream uses of an invention after a license has been granted.

The petitioners in the LG case, including Quanta, are computer makers who build computer systems using specialized chipset microprocessors purchased from Intel Corp., which is authorized to make and sell those components under a cross-license agreement with LG Electronics.

"Quanta versus LG tackles the issue of the extent to which a patent proprietor can effectively and efficiently manage the rights provided by patents by dividing the granted rights, specifically the right to use the patented invention, with respect to downstream users of a product made under the patent," said Alan J. Kasper, a partner at Sughrue Mion PLLC's Washington, D.C. office.

In 2001, LG accused Quanta and several other defendants of infringing five patents related to methods and systems for receiving and transmitting data. LG argued that the combination of components in the accused devices constituted infringement.

The U.S. District Court for the Northern District of California held that LG's patent claims were exhausted and that since LG had licensed the right to sell products embodying the patents to Intel, LG couldn't assert an infringement claim against a party that legitimately purchased and utilized the microprocessors and chipset.

But in July 2006, the Federal Circuit reversed the district court's decision that

LG's system claims were exhausted, holding that the doctrine of patent exhaustion is triggered only by an unconditional sale, which hadn't happened in this case. The appeals court vacated much of the district court's determination of non-infringement, spurring Quanta to appeal the case.

What's at stake?

"If the Federal Circuit decision is upheld with the Supreme Court holding that licenses can be limited in this fashion, there will be a lot more complications in licensing and what kind of indemnities companies will have to give to their customers," said Frederick L. Whitmer, who heads up the IP group at Thelen Reid Brown Raysman & Steiner LLP's New York office.

Although a number of parties have sided with Quanta that the first-sale doctrine does apply and the patent claims are exhausted, none of the amicus briefs filed has backed LG's position, noted James R. Burdett, a senior member of the IP practice at Venable LLP's Washington, D.C. office.

"It's a pretty interesting fight brewing here. No one is coming to LG's aid. A lot of the patent bar is pleased that the Supreme Court is taking an active role to square away Federal Circuit provisions like it did in the KSR and MercExchange cases. We expect the Quanta case will be the latest in line," Burdett said.

But not all attorneys agree with that view.

"It is eminently sensible to allow patentees to include enforceable downstream restrictions in their license grants, and accordingly I would not be surprised if Quanta marked a departure from the recent trend of Supreme Court decisions cutting back on patent-holder rights," said Benjamin W. Hattenbach, a partner at Irell & Manella LLP's Los Angeles office.

Who should be watching this case?

Because of the implications of this dispute on companies that rely on manufacturers like Quanta to make assemblies and components for them, the personal computer industry and the electronics sector will be closely following this case. IBM Corp., Dell, Hewlett-Packard Co., Taiwanese manufacturers, car parts rebuilder groups, the American Antitrust Institute and consumer advocacy groups have all thrown their support behind Quanta.

The case is *Quanta Computer Inc. et al. v. LG Electronics Inc.*, case number 06-937, before the U.S. Supreme Court.

2. Triantafyllos Tafas et al. v. Jon W. Dudas et al.

Background

Before a set of controversial new rules from the U.S. Patent and Trademark Office were able to go into effect in the beginning of November 2007,

plaintiffs SmithKline Beecham Corp. and Glaxo Group Ltd. made a last-ditch effort to stop the regulations from taking hold.

In a stinging blow to the PTO, the plaintiffs were able to convince the U.S. District Court for the Eastern District of Virginia on Oct. 31 to grant their motion for a preliminary injunction on the agency's rules, which are mainly focused on restricting continuing applications and claims.

GSK, the second largest pharmaceutical company, argued that the rules, which have been fiercely fought by scores of patent law practitioners, were introduced without "proper legal authority."

The USPTO introduced the new rules in the face of a growing backlog of pending patent applications, contending that they will make the process more effective and efficient.

The rules allow for applicants to file only two new continuing applications and one request for continued examination unless they can provide a convincing argument as to why the additional information in question was not previously submitted.

The new rules also limit applications to 25 claims, including no more than five independent claims, unless the applicants can demonstrate why the additional claims are necessary.

Previously, applicants could automatically file an unlimited number of continuations, and, in principle, their applications could have an unlimited number of claims.

GSK's suit was consolidated with a lawsuit filed by individual inventor Triantafyllos Tafas, who sought a similar order.

A hearing on placing a permanent injunction on the rules is set for April.

What's at stake?

Lawyers said the grant of the injunction sends a clear message to the PTO that it overstepped its bounds and needs to figure out less imposing methods for improving the patent process.

John B. Pegram, senior counsel at Fish & Richardson PC's New York office, said the injunction may encourage future litigation of burdensome rules proposed by the PTO, such as the agency's upcoming disclosure rules.

"The decision's a lengthy one and suggests the likelihood of success for the plaintiffs. The patent office should get together with industry to reach practical decisions rather than making the proposals it did," Pegram said.

The backlash to the PTO's rules may also have a significant effect on the patent reform legislation before Congress that is seeking to give the patent

office broader authority to amend substantive rules.

The PTO's proposal to place restrictions on the number of continuation applications has been likened to "trying to kill flies with a sledgehammer" because the agency has acknowledged that problems arise from less than 3% of these applications, Pegram said.

"Many law firms and industries see continuation applications as a practical way of continuing prosecution of their applications by getting issues resolved and paying an additional fee to do it. Certain industries like the biotech sector cannot get everything into one application and may not know enough when they first file their application," Pegram said.

The PTO's rules aiming to limit the number of claims in an application would force applicants who want to include more claims to file an examination support document.

"Applicants would have to explain every single, tiny distinction, which would be very burdensome to prepare and could create a lot of risks if applicants make any mistakes," Pegram said. "On a preliminary basis, the court has said the PTO did not have the right to limit applications to 25 claims."

Whitmer said the PTO is likely bow out of this suit.

"The PTO will have to revise its patent rules. It seems hard picturing that the PTO will continue to fight this fight on these terms, especially with the injunction," Whitmer said.

Who should be watching this case?

The PTO's rules could completely change how large IP owners budget and plan for filing patent applications. HP, Intel, Microsoft Corp. and companies that file thousands of applications a year will be taking note of this case.

GSK has already received support from a diverse group, including the American Intellectual Property Law Association, IBM, research organization Roskamp Institute and individual inventors.

The case is *Triantafyllos Tafas et al. v. Jon W. Dudas et al.*, case number 1:07-cv-00846, in the U.S. District Court for the Eastern District of Virginia.

3. *Dell USA LP v. Lucent Technologies Inc.*

Background

This case is putting the Federal Circuit's *Seagate* decision regarding willful infringement to the test in a dispute over whether a lack of attorney opinion by Lucent may be included in a trial over online sales technology.

Lucent has filed a motion in the U.S. District Court for the Eastern District of

Texas which seeks to prohibit Dell from mentioning that Lucent never obtained an opinion of counsel regarding whether the patents-in-suit were invalid, not infringed or otherwise unenforceable. Dell has opposed the motion.

Lucent wants to preclude a jury from considering the lack of opinion in determining whether Lucent's infringement was willful – which could lead to triple damages in the infringement suit over two patents related to configuring and managing customer and product information online.

Lucent claimed that its decision not to obtain a written opinion of counsel is irrelevant to a willful infringement inquiry in accordance with the U.S. Court of Appeals for the Federal Circuit's August decision in *In re Seagate Technology LLC*.

The Seagate decision held that willful infringement required proof by clear and convincing evidence that the accused infringer was both objectively reckless and knew, or should have known, the objectively-defined infringement risk.

The decision displaced the Circuit's previous standard which held an infringer needed to obtain legal advice from counsel before beginning any possible infringing activity.

A final pretrial conference in the case is scheduled for Jan. 9, with a trial scheduled to begin five days later.

What's at stake?

This dispute highlights important issues for practitioners over whether to get an opinion of counsel and how to argue a case with the absence of one.

“For a long time, you had to get an opinion because if you didn’t, it could give the judge a reason to think your client did infringe the patent,” Whitmer said.

Securing an opinion has been considered an insurance policy for a company accused of infringement. If the company sells a product worth \$2 billion and is tied into an infringement suit, in order to avoid a potentially disastrous finding of willful infringement, getting an opinion that costs \$100,000 may be worth it. But if the company is only selling a product worth \$10,000, Whitmer said getting a \$100,000 opinion makes no sense.

The Federal Circuit's 2004 en banc decision in the Knorr-Bremse AG brake pads case threw a wrench into the matter after it found that a judge cannot automatically infer that a lack of attorney opinion means willful infringement. Whitmer said the case against Lucent could clear up some of the confusion from prior rulings.

Who should be watching this case?

Because this case is poised to influence how companies defend against willful infringement claims, the biotechnology, electronics and software industries as well as companies that rely on innovation as a key part of their business will be tracking the developments in this dispute.

The case is *Dell USA LP v. Lucent Technologies Inc.*, case number 4:03-cv-347, in the U.S. District Court for the Eastern District of Texas.

4. Egyptian Goddess Inc. v. Swisa Inc.

Background

In a case shaping up to be significant for design patent infringement suits, the Federal Circuit has agreed to an en banc review over whether the “point of novelty” test should be used in determining infringement of a patent covering the design of an ornamental nail buffer.

Egyptian Goddess accused Swisa of infringing its combination of elements for its four-sided buffer patent, but the Federal Circuit upheld a lower court’s grant of summary judgment in favor of Swisa after finding that Swisa’s nail buffers did not include the point of novelty of the invention.

The Federal Circuit held that the point of novelty had to contain features of the claimed design that distinguish it from the prior art and that a combination of design elements must be a non-trivial advance over the prior art.

But Judge Timothy Dyk disagreed with the majority opinion, contending that the majority equated its non-trivial advance test with the requirement that a design patent be non-obvious over the prior art, and limited that test to cases in which the point of novelty involves a combination of prior art elements. Judge Dyk criticized the majority for combining the requirements for infringement and non-obviousness and for removing the presumption of validity by forcing the patentee to prove non-obviousness.

An appeal of the decision led the Federal Circuit to vacate the panel’s decision and grant a rehearing en banc, in which the appeals court is set to review the “point of novelty” test and whether claim construction should apply to design patents, even though neither party challenged the district court’s claim construction.

What's at stake?

Although courts have said design patents follow the same statutes as utility patents, design patent law has become increasingly complex and often departs from the Patent Statute. Lawyers expect this case could clarify where design patents stand in terms of useful patentable subject matter and offer a new definition of design patent infringement.

Burdett noted that this case is important because more large manufacturers are resorting to design patents to enforce products coming into the United

States.

As a case in point, Ford Motor Co. was able to get the International Trade Commission in June to ban Taiwanese manufacturers from importing fenders and grills that infringed its design patents to the United States. Ford essentially forced auto repair shops to fix crashed Ford pick-ups with only Ford auto parts and no third-party parts, according to Burdett, who represents Ford on other matters.

“If design patents are used to foreclose competition on the most mundane of inventions like a nail buffer, what does the court do with the more important inventions? I think the Federal Circuit will provide more guidance and impose a Markman claim construction in this case,” Burdett said.

Who should be watching this case?

With design patents covering a range of products from plastic bottles to auto parts, consumer product packaging companies, such as Colgate-Palmolive Co. and Procter & Gamble, are likely to take an interest in this case as well as Ford and other auto manufacturers.

The Federal Circuit has allowed Nike Inc. and the American Intellectual Property Law Association to file amicus briefs in the proceeding.

The case is *Egyptian Goddess Inc. v. Swisa Inc.*, case number 06-1562, in the U.S. Court of Appeals for the Federal Circuit.

5. Viacom International Inc. et al. v. YouTube Inc. and Google Inc.

Background

Viacom’s \$1 billion copyright infringement suit against online video forum YouTube and Google could set the stage for new copyright laws in the digital era.

Entertainment giant Viacom accused YouTube in the U.S. District Court for the Southern District of New York of willfully infringing Viacom’s copyrights and turning a profit from YouTube users who upload protected content that can be viewed by others on YouTube’s servers. Viacom asked for more than \$1 billion in damages and an injunction to block Google and YouTube from future copyright violations.

Google has argued that it is shielded from Viacom’s allegations by the safe-harbor obligations of the Digital Millennium Copyright Act of 1998, which protect certain activities of Internet service providers. The company said it takes down videos when copyright holders ask, thereby complying with DMCA requirements.

The DMCA has made way for a host of Internet services that promote content developed by everyday users, even though the content sometimes

poses challenges for Internet companies to monitor.

Viacom has held that YouTube is not protected under the safe-harbor clauses of the DMCA, and contended that YouTube's procedure of making copyright holders submit a request every time they wanted content removed is exceedingly burdensome.

What's at stake?

"As far as the Digital Millennium Copyright Act goes, this case will show where the line needs to be drawn. It raises practical issues over who should be monitoring the content on YouTube," said Joseph M. Potenza, a partner at Banner & Witcoff Ltd.'s Washington, D.C. office.

Although Google has plunked down a hefty \$1.65 billion to acquire the video site, Potenza said YouTube's defense stands on shaky ground because of its direct financial interest in allowing unauthorized content to be posted on its site.

The case also brings up questions over whether YouTube induces infringement and what are the parameters for companies that pay to advertise on free Web sites that post various works.

"YouTube knows that protected content is being put up – so much is put up that it doesn't know where to look – and the same burden is put on copyright owners. There is more technology now that could filter out unauthorized material. YouTube has options, but it would rather have a few seconds of storage for a few seconds of financial benefit," Potenza said.

The case and the copyright matters in question will only become more relevant as the Internet continues to lure in new online ventures.

"As the Internet grows and profit incentive increases, there's going to be more of a willingness to get involved in this game," Potenza said.

Who should be watching this case?

Free file-sharing Web sites with financial advertising and the entertainment industry are going to keep an eye on this dispute.

Viacom was joined in the suit by affiliates Comedy Partners, Country Music Television Inc., Paramount Pictures Corp. and Black Entertainment Television LLC.

The case is Viacom International Inc. et al. v. YouTube Inc. and Google Inc., case number 1:07-cv-02103, in the U.S. District Court for the Southern District of New York.

--Additional reporting by Ben James, Jacqueline Bell, Ron Zapata and Sara Stefanini