

Intellectual Property UPDATE

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Reviewing When Patent Infringers Should Be Permanently Enjoined: *MercExchange v. eBay and Half.Com, Inc.*

Sometime this spring the United States Supreme Court will hear arguments about a district court's discretion, *vel non*, to deny permanent injunctive relief after a patent is found valid and infringed. The Court's decision is keenly anticipated because it may restrict a growing population of patent owners – namely, holding companies that do not practice their patented technologies – from obtaining permanent injunctions. To reach such a result, the Court might reconsider nearly century old precedent that a patent owner's intent not to practice its patents has no bearing on the decision to permanently enjoin an infringer.

The dispute before the Court today relates to three patents (U.S. Pat. Nos. 5,845,265; 6,085,176; and 6,202,051) that claim a method and apparatus for conducting Internet auctions, and, more generally, e-commerce. *MercExchange v. eBay and Half.Com*, 275 F.Supp.2d 695 (E.D. Va. 2003). The owner of the patents, MercExchange, does not practice its patented technology, but rather exists solely to license and enforce its rights. After a five week trial, a jury found that eBay's "Buy it Now" system for fixed-price Internet sales infringes the patents. On various post-trial motions, the court entered judgment against defendants in the amount of \$29.5 million.

Importantly, however, the court denied MercExchange's motion for entry of a permanent injunction. Citing 35 U.S.C. § 283, the court acknowledged that "the grant of injunctive relief against the infringer is considered the norm." Nevertheless, the court determined that it retained discretion to grant or deny injunctive relief within traditional principles of equity. Accordingly, it considered: (1) irreparable injury to

MercExchange if the injunction was refused, (2) whether MercExchange had an adequate remedy at law, (3) whether the public interest favored an injunction, and (4) whether the balance of hardships tipped in MercExchange's favor.

The district court analyzed each factor in turn. First, the court presumed that MercExchange would be irreparably injured because the patents were valid and infringed. However, the court found the presumption had been adequately rebutted in light of evidence that MercExchange existed "merely to license its patented technology." The court also noted that MercExchange made statements to the media that it did not intend to enjoin eBay, but rather sought appropriate damages for infringements.

Second, the court determined that, under the circumstances, money damages would adequately remedy the infringements. Next, the court found that the public interest cut both ways. In defendants' favor, the court noted a "growing concern over the issuance of business method patents" like those asserted by MercExchange, and cited proposed legislation that would remove the presumption of validity for such patents. On the other hand, the court recognized that the integrity of the patent system is based on exclusionary rights. Thus, this factor was neutral.

Finally, the court held that the balance of hardships tilted slightly in defendants' favor because MercExchange "exists solely to license its patents or sue to enforce its patents, and not to develop or commercialize them." On this last factor, the court also expressed concern that, if granted, MercExchange would burden the court with contempt hearing

after contempt hearing, imposing extraordinary costs on the parties and judicial resources. In light of all these considerations, the court denied permanent injunctive relief.

The Federal Circuit reversed, explaining that "the district court did not provide any persuasive reason to believe this case is sufficiently exceptional to justify the denial of a permanent injunction." *MercExchange v. eBay*, 401 F.3d 1323, 1339 (Fed. Cir. 2005). Rejecting the district court's focus on MercExchange as a patent holding, licensing, and enforcement company, the Federal Circuit explained, "[i]njunctive relief is not reserved for patentees who intend to practice their patents, as opposed to those who choose to license. The statutory right to exclude is equally available to both groups, and the right to an adequate remedy to enforce that right should be equally available to both as well."

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Copyright Protection for Digitally Delivered Music: A Global Affair

Unless you have been living on a remote island without Internet access for the past five years, you are likely aware of recent massive enforcement efforts to stop illegal online music downloading. Recent developments regarding online music copyright licensing and enforcement, both in the United States and abroad, show that progress is being made to stem the flow of digital music piracy. Individual lawsuits, coupled with the availability of legitimate music download services, are beginning to have an effect on the amount of illegal music downloads around the world, but many practical and legal hurdles remain.¹

The United States is not the only country to have ruled that file sharing services are or can be illegal. In what appears to be a global trend, Taiwanese, South Korean and Australian courts have also recently handed down similar decisions supporting the rights of music copyright holders against file sharing services.

On September 9, 2005, a Taipei, Taiwan District Court ruled that Taiwan's largest file sharing network, Kuro, was guilty of music piracy. The Summary Judgment determination held that Fashionnow Co. Ltd. (Fashionnow), the owner and operator of the Kuro network, infringed on music copyrights by charging users a monthly fee to search for and download unauthorized versions of copyrighted works. Three of Fashionnow's top executives were sentenced to prison terms of two to three years, and one subscriber faces a sentence of four months to three years.²

In August 2005 the Seoul Central District Court in Korea ordered Soribada, Korea's largest online music sharing service with as many as 22 million members, to shut down its free music sharing service. Still operating as of October 31, 2005, the court further ordered Soribada to pay a fine of approximately \$10,000 per

day it continued operating.³ Soribada ceased music sharing services on November 7, 2005, yet Soribada insists it will relaunch another free music sharing service that is "beyond the reach of the law."⁴

In perhaps the most significant decision, on September 5, 2005, the Australian federal court ruled that Kazaa, until recently one of the world's biggest single internet piracy operations with 2.4 million users worldwide, is an illegal business that is liable for copyright infringement. The ruling, against Kazaa and others, held that "companies and individuals associated with Kazaa knowingly facilitated and profited from massive copyright infringement, failed to take any measures to stop it and must now start to filter its infringing recordings within two months or face closure."⁵

In the wake of these decisions, international users will naturally seek out alternative sources for online music downloads, legitimate or otherwise. A key prerequisite to the availability of legitimate music download services is the availability of licenses to the underlying musical works and sound recordings being distributed. In the United States such licenses can be negotiated once throughout the entire country.

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¹ An expanded version of this article appears in *Intellectual Property & Technology Law Journal*, Vol. 18, No. 2, February 2006.

² IFPI welcomes landmark conviction of Taiwan file-sharing service Kuro, IFPI Press Release, September 9, 2005, <http://www.ifpi.org/site-content/press/20050909.html>, visited November 13, 2005.

³ *Soribada Shuts Down P2P Site After Court Verdict*, The Chosun Ilbo, English Ed., November 7, 2005, <http://english.chosun.com/w21data/html/news/200511/200511070017.html>, visited November 13, 2005.

⁴ *Unrepentant Soribada to Launch Free P2P Site*, The Chosun Ilbo, English Ed., November 11, 2005, <http://english.chosun.com/w21data/html/news/200511/200511110027.html>, visited November 13, 2005.

⁵ *Universal Music of Australia Pty Ltd vs. Sharman License Holdings Ltd.*, Federal Court of Australia (2005), see also, Kazaa, the biggest brand name in Internet music piracy, is ruled illegal, IFPI Press Release, September 5, 2005, <http://www.ifpi.org/site-content/press/20050905.html>, visited November 13, 2005.

MercExchange v. eBay

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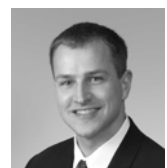
Notably, the Federal Circuit reiterated the "general rule" that permanent injunctions "will issue" to prevailing patent owners. Thus restricting to "rare instances" a court's discretion to deny a permanent injunction against an infringer, the Federal Circuit explained "that a court may decline to enter an injunction when 'a patentee's failure to practice the patented invention frustrates an important public need for the invention,' such as the need to use an invention to protect public health." Because there were no such "exceptional circumstances" in this case, the Federal Circuit reversed the court's denial of *MercExchange's* motion for injunctive relief.

On November 28, 2005, the Supreme Court granted eBay's petition for writ of *certiorari*. In its order, the Court directed the parties to brief and argue - in addition to eBay's petition - whether the Court should reconsider its precedents in this area, including the Court's 1908 decision in *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405.

In *Continental Paper Bag*, an infringer argued that a permanent injunction entered against it should be reversed because the patent owner unreasonably made no commercial use of its patents. Seeing no reason to consider the alleged unreasonableness of the patent owner's non-use, the Court affirmed the injunction because "exclusion may be said to have been of the very essence of the right conferred by the patent, as it is the privilege of any owner of property to use or not use it, without question of motive." This, essentially, is the same conclusion reached by the Federal Circuit in *MercExchange*.

Thus, having granted eBay's petition and opened the door to reconsider *Continental Paper Bag*, the Court has positioned itself to broadly clarify when it is appropriate to grant or deny permanent injunctive relief to prevailing patent owners. A decision is expected by the end of June. ■

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Digitally Delivered Music

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Thus, Apple might negotiate with the rights holder, or the performing rights organization designated by the rights holder, for a license for a specific sound recording and its underlying musical work, and Apple can then offer the song for download via iTunes to anyone in the United States—a significant market. In other countries it is not so “simple.”

For example, in the European Union, copyright license fees are presently collected by national agencies. This means that a business (e.g., Apple’s iTunes) desiring to license and distribute copyrighted works must negotiate individually with each national collection agency, i.e., one in France, one in Germany, one in Italy, etc. The resultant licenses obtained from each national collection agency are not necessarily equal, resulting in different catalogs of music being made available to users under different terms and conditions in each of the 25 member states of the European Union.⁶ Apple is said to have to pay as much as \$500,000 or more to negotiate and license some songs throughout the 25 member states of the European Union. In practice, this means users in some countries have smaller catalogs of music to choose from than users in other countries. The emergence and popularity of online music services means there is growing demand for a license that covers all 25 EU nations.

On October 12, 2005, the European Commission adopted a proposal by the Internal Market and Services committee regarding the management of online rights in musical works. The proposal recommends that right-holders and commercial users of copyright-protected material should be given a choice as to their preferred model of licensing: either improve cooperation among collecting societies allowing each society in the EU to grant a EU-wide license covering the other societies’ repertoires; or give right-holders the choice to appoint a collective rights manager for the online use of their musical works across the entire EU (“EU-wide direct licensing”). This initial two-pronged scheme thus provides alternatives where different online services might require different forms of EU-wide licensing policies. The recommendation therefore proposes the elimination of territorial restrictions and customer allocation provisions in existing licensing contracts while leaving right-holders who do not wish to make use of those contracts the possibility to tender their repertoire for EU-wide direct licensing.⁷ The adoption of an EU-wide licensing scheme should thus foster development of Internet-based music services and allow such services to develop to their full potential, i.e., provide expanded catalogs of music, at lower costs, uniformly across the European Union.

Elsewhere in the world, CD piracy continues to be a major problem for digitally distributed music. To create an illegal CD, a music pirate can either copy an original authentic copy of the CD, or the pirate may simply piece together a CD based on individual recordings of songs available from legal or illegal file sharing networks. Pirated CDs are now easier to produce than ever, because a pirate can use a high-speed CD-R burner to burn as many as 60 CDs per hour, instead of being required to operate an entire optical disc plant to reproduce illegal copies.

In 2004, one in three of all CDs sold was pirated. Music pirates sold an estimated 1.2 billion units, amounting to approximately \$4.6 billion at pirate prices. This is almost double the level of CD piracy in 2000. In 2004, thirty-one countries sold more fake recordings than legal copies. The top-ten priority countries for pirated CDs in 2004 (with their respective piracy levels) were Brazil (52%), India (56%), China (85%), Indonesia (80%), Mexico (60%), Pakistan (59%), Paraguay (99%), Russia (66%), Spain (24%), and the Ukraine (68%). Bulgaria, Canada, Korea, and Taiwan also received “dishonorable” mentions. Countries with less than 10% piracy levels in 2004 include the United States, Canada, Austria, Denmark, France, Germany, Iceland, Ireland, Norway, Sweden, Switzerland, the United Kingdom, Japan, Singapore, Australia, and New Zealand.⁸

Recent court decisions in the United States, Korea, Taiwan, and Australia are indicative of a recent positive trend in the enforcement of rights in digital copies of music. While the United States sets a good example for the development of marketplace-based solutions in response to court decisions, many foreign jurisdictions have less than stringent copyright enforcement capabilities, and legal obstacles to the effective licensing of musical works for distribution through legitimate music download services remain in many foreign jurisdictions. Although copyright holders appear to have won many recent battles in the war against piracy of digitally delivered music, the fight is far from over. Free file sharing networks such as Kazaa and Morpheus, both of which have had adverse court decisions against them, continue to operate, and CD piracy remains a serious concern throughout much of the world. ■

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⁶ EU pushes for online music copyright, MSNBC, October 12, 2005, <http://msnbc.msn.com/id/9671269/>, visited November 13, 2005.

⁷ European Commission, Music copyright: Commission recommendation on management of online rights in musical works, October 12, 2005, <http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/05/1261&format=HTML&aged=0&language=EN&guiLanguage=en>, visited November 13, 2005.

⁸ The Recording Industry 2005 Commercial Piracy Report, International Federation of the Phonographic Industry (IFPI), June, 2005, available from <http://www.ifpi.org/site-content/library/piracy2005.pdf>, visited November 13, 2005.



TTAB Proposes Major Rule Changes

The USPTO's Trademark Trial and Appeal Board (TTAB) issued a proposed rules package on January 17, 2006, that, if adopted, will result in major changes to TTAB practice relating to oppositions and cancellations. Oppositions are administrative litigation proceedings against a pending application to register a trademark and cancellations are administrative litigation proceedings brought against a registered trademark. If granted, an opposition will result in denial of registration of a mark, and a cancellation will result in cancellation of a federal trademark (or service mark) registration.

Cancellation and opposition proceedings (known as inter partes proceedings) are similar to court litigation in that they include the administrative equivalent of a complaint (a notice of opposition or petition for cancellation – referred to here as the “complaint”) and answer, discovery (including interrogatories, document requests, requests for admissions and depositions), trial (done by deposition, not in live court), and, if requested, a final hearing before 3 administrative law judges. However, while a TTAB inter partes proceeding has many elements of a court proceeding, TTAB litigation traditionally has been viewed as a more leisurely, and somewhat more genteel, type of litigation proceeding, with a very high rate of settlement before trial. That may all change with the new rules package.

On the horizon, if the new rules are adopted, are streamlined procedures for serving the “complaint”, holding initial discovery conferences, and adopting mandatory protective orders, mandatory disclosures early in discovery, limits on interrogatories, new rules governing expert disclosure, pretrial disclosures and more stringent page limits for motions. Key proposals include the following:

- The plaintiff will now be required to serve the complaint directly on the party in a cancellation or on counsel of record (or if none, the party) in an opposition. (Under prior practice, the TTAB forwarded copies of the complaint to the party or attorney.) It is anticipated that service by mail would be permitted, and personal service would not be required.
- After the answer is filed, there would be an initial discovery conference, which could, at the request of the parties, include participation of a TTAB professional (staff attorney or administrative trademark judge), and should include discussion of settlement, in addition to creation of a discovery plan. The discovery conference could be in person or by other means.
- Certain “core” information would be the subject of mandatory disclosures within 30 days of the opening of discovery, such as the identity of persons with knowledge of relevant facts, identification of documents, and key information such as dates of use relied on in a priority battle. (The list of proposed criteria for initial disclosures is lengthy, and much more detailed than the initial disclosures required under the Federal Rules. Thus, this provision likely will be the subject of much debate amongst the trademark bar.)
- Experts should be disclosed 90 days prior to the close of discovery (although later identification of experts is permitted if experts not know when the 90 day window arrives).
- Interrogatories would be decreased from 75 to 25 (counting subparts). The TTAB has been much more rigid in counting subparts than is the case under the Federal Rules, so this proposed change would result in a substantial reduction in the amount of information obtained through interrogatories. The stated justification is that with mandatory disclosures, fewer interrogatories are needed.
- The TTAB's own standard protective order would be applicable in all cases unless the parties specifically opt out of it. (Parties would be free to submit their own order.)



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A Tribute to Donald W. Banner

Donald W. Banner, former U.S. Commissioner of Patents and Trademarks and named Partner in the law firm of Banner & Witcoff, Ltd., died at his home in Tucson, AZ, Sunday, January 29. Don was 81. At the time of his death he was surrounded by those he loved.

Don was a P-47 fighter pilot in World War II. He survived being shot down and was a prisoner of war until liberated by General Patton's 14th Armored Division of the Third Army on April 29, 1945, a day Don celebrated every year since. He received an Electrical Engineering degree from Purdue University and went on to receive his law degree from the University of Detroit. Thereafter Don returned to his hometown of Chicago, where he worked and continued his education, receiving a Master of Patent Laws degree from the John Marshall Law School. From 1953 to 1979 he was General Patent Counsel for Borg-Warner Corporation.

Don was a leader in the field of patent law. During his time at Borg-Warner he was Chair of the American Bar Association Section of Intellectual Property Law, President of the American Intellectual Property Law Association, a founding member of the Association of Corporate Patent Counsel, President of the International Patent and Trademark Association, Co-founder and President of the Intellectual Property Owners Association, and Director of the John Marshall Law School Center for Intellectual Property Law. He was also a United States delegate to numerous international diplomatic conferences.

Because of his many accomplishments and the respect he garnered in the field of intellectual property, Mr. Banner

was appointed to be U.S. Commissioner of Patents and Trademarks by both Presidents Nixon and Carter, the only person to be so appointed by presidents of both political parties. He served in that office only during the Carter Administration.

After serving as Commissioner, Don began private practice in Washington D.C., with the firm that bears his name and continued his active schedule.

Those in the intellectual property law field are familiar with Don's legacy of accomplishments and recognitions for those accomplishments. He spoke and published widely on the patent law and its importance to encouraging creativity and promoting the general welfare of our country. During his time in Washington he was Chairman of The Foundation for a Creative America, Co-founder and President of the Giles S. Rich American Inn of Courts, and head of the Intellectual Property program at George Washington Law School.

Among his many lifetime awards are the Jefferson Medal for Outstanding Contributions in the field of Patent, Trademark and Copyright Law and The Distinguished Engineering Alumnus Award from Purdue University. He was the first American to receive the Pacific Industrial Property Association Award for Outstanding Contributions in the Intellectual Property Field. Most recently Don received the Lifetime Achievement Award from The Sedona Conference for his dedication to the practice of intellectual property law and the Lifetime Achievement Award from the National Inventors Hall of Fame. ■



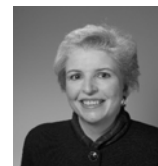
Rule Changes

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- Certain pretrial disclosures required 30 days after close of discovery (list of witnesses expected to testify, summary of their testimony, and documents/things to be introduced at each deposition).
- Page limits on motions have been tightened (the 25 page maximum now includes table of contents and other ancillary pages).

The TTAB states that it will be liberal in granting extensions of time to answer the initial complaint, as well as in granting suspensions, in order to encourage settlement. However, it remains to be seen whether adding the structure of the discovery conferences and initial and pretrial disclosures

will delay or facilitate settlement. The proposed list of items that might be included in initial disclosures appears to be much broader than this type of disclosure under the Federal Rules, and is likely to garner some resistance from parties to proceedings. If adopted in their present form, these rules will have a substantial impact on both litigation and settlement strategy in TTAB proceedings. It is possible that some of these proposals will not be adopted, or will be modified. Comments on the proposed rules are due on March 20 and the final rules are expected later this year. ■



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Statement of Reasons for Allowance: No Prosecution History Estoppel

In *Salazar v. Procter & Gamble Co.*, 414 F.3d 1342 (Fed. Cir. 2005), the Court of Appeals for the Federal Circuit held that an Examiner's Statement of Reasons for Allowance does not give rise to prosecution history estoppel.

Salazar sued Procter & Gamble for infringement of a patent covering a toothbrush (U.S. Pat. No. 5,535,474). The district court used the Examiner's Statement of Reasons for Allowance when construing the claims and therefore excluded nylon from the scope of the claim term "elastic" and granted Procter & Gamble's summary judgment motion of non-infringement based on that construction.

On appeal, the Federal Circuit reversed the claim construction, stating that the district court incorrectly excluded nylon from the scope of the claim term "elastic" because an examiner's remarks in the Examiner's Statement of Reasons for Allowance do not amount to a clear disavowal of claim scope by the applicant. The Federal Circuit pointed out that no argument or amendment was ever made by the applicant with regard to the claim at issue in the suit. In fact, the only reference or discussion of the "elastic" limitation by either the examiner or the applicant was in the Examiner's Statement of Reasons for Allowance, to which the applicant never responded. In support of this decision, the Federal Circuit cited the regulations in effect at the time of prosecution of the '474 patent, which stated:

If the examiner believes that the record of the prosecution as a whole does not make clear his or her reasons for allowing a claim or claims, the examiner may set forth such reasoning. The reasons shall be incorporated into an office action rejecting other claims of the application or patent under reexamination or be the subject of a separate communication to the applicant or patent owner. The applicant or patent owner may file a statement commenting on the reasons for allowance within such time as may be specified by the examiner. Failure to file such a statement shall not give rise to any implication that the applicant or patent owner agrees with or acquiesces in the reasoning of the examiner.

37 C.F.R. § 1.109 (1996).

The Federal Circuit explained that unilateral statements by an examiner do not preclude a patentee from taking a position in claim construction during litigation that is contrary to the statements made by the examiner. Additionally, unilateral statements by an examiner in the Examiner's Statement of Reasons for Allowance can not alter the claims and therefore do not give rise to prosecution history estoppel. Therefore, a patentee can still put forth an argument for infringement under the doctrine of equivalents. The Federal Circuit vacated the portion of the district court's claim construction that excluded nylon from the scope of the "elastic" element of the claim. The Federal Circuit then affirmed the remaining portion of the claim construction and remanded the case for an infringement determination.

As stated in *Salazar*, the regulations have since been amended and the last sentence now reads: "Failure by the examiner to respond to any statement commenting on reasons for allowance does not give rise to any implication." 37 C.F.R. § 1.104(e).

In *Cytoc Corp. v. Tripath Imaging, Inc.* 2005 WL 3177877, *10 (D.Mass. Nov. 28, 2005), after the amended regulations were in effect, the district court found that an applicant has no duty to respond to an examiner's reasons for allowance and that an applicant's failure to respond does not give rise to prosecution history estoppel. The court then went on to state that although silence does not act as a disavowal, the examiner's reasons for allowance may be useful to understand how terms would be understood by one of skill in the art at the time the application was filed. Therefore, although an examiner's unilateral statement may affect interpretation of the claim terms, the unilateral statement can not preclude a patentee from taking a contrary position in litigation. ■

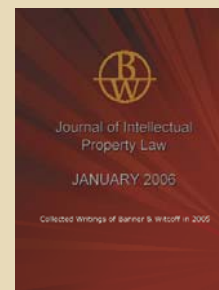


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Held Invalid: Claims Directed to Apparatus and Method Features

The Court of Appeals for the Federal Circuit ("CAFC"), the appeal-level court for patent matters, recently issued an opinion in what was referred to as a matter of first impression before the court. Specifically, in *IPXL Holdings, LLC v. Amazon.com, Inc.*¹, the CAFC stated unequivocally that claims directed to both apparatus and method features are to be considered indefinite.

The CAFC considered the language of claim 25 of IPXL's U.S. Patent No. 6,149,055:

The *system* of claim 2 [including an input means] 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. (Emphasis added.)

The CAFC held that "[b]ecause 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."

Specifically, the CAFC stated that it was unclear whether infringement of claim 25 occurs when (1) one creates a system that allows the user to change the predicted transaction information or accept the displayed transaction, or whether infringement occurs when (2) the user actually uses the input means to change transaction information or uses the input means to accept a displayed transaction. Simply, does infringement occur when the system is made or when the system is utilized?

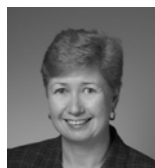
The Board of Patent Appeals and Interferences ("BPAI") of the PTO earlier had made it clear that reciting both an apparatus and a method of using that apparatus renders a claim indefinite under section 112, paragraph 2. *Ex parte Lyell*, 17 USPQ2d 1548 (BPAI 1990). However, the court stated that whether a single claim covering both an apparatus and a method of use of that apparatus is

invalid was an issue of first impression for the Court.

The BPAI stated that, as a result of the combination of two separate statutory classes of invention, a manufacturer or seller of the claimed apparatus would not know from the claim whether it might also be liable for contributory infringement because a buyer or user of the apparatus later performs the method of using the apparatus set forth in that same claim. Thus, such a claim has been considered "not sufficiently precise to provide competitors with an accurate determination of the 'metes and bounds' of protection involved" and "ambiguous and properly rejected" under 35 U.S.C. § 112, paragraph 2. *Id.* at 1550-51. This rule is well recognized and has been incorporated into the PTO's *MANUAL OF PATENT EXAMINATION PROCEDURE* § 2173.05(p)(II) (2001).²

This opinion is important to consider in drafting U.S. Patent claims since examiners will be even more vigilant in rejecting claims having both apparatus and method features and, even if such claims are obtained, they will likely be held invalid by a court. ■

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¹ 05-1009 Fed. Cir. 2005

² "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."

Upcoming Events and Presentations

March 14 Darrell Mottley will serve as Program Chair for the District of Columbia Bar Association's luncheon program "The Patent Office Speaks", which discusses the latest developments and issues on the patent side of the U.S. Patent and Trademark Office.

March 17 Binal Patel will serve as a panelist during the Minority Corporate Counsel Association's 5th Annual CLE Expo in Chicago. The panel will discuss "Diamonds in the Rough: Non-Traditional Copyright Protection."

March 23-25 Peter McDermott will be speaking at the 2006 Massachusetts Bar Association Annual Conference on the topic of "Gathering & Protecting Company Intellectual Property: Obtaining the Benefits of Property Developed by Employees and Contractors."

March 26-30 Ernest Linek will speak on "Patent Appeals at the USPTO" for the Division of Chemistry and the Law during the American Chemical Society National Meeting on March 26-30 in Atlanta, GA.

April 6-8 Mark Banner will moderate a panel discussion titled "What Works? Best Practices for an IP Trial as Viewed from the Bench and Bar" during the American Bar Association 21st Annual Intellectual Property Law Conference in Arlington, VA.



In a Case of “Virtual” First Impression, Federal Circuit Analyzes False Marking Statute

The Federal Circuit recently analyzed the false marking statute in *Clontech Labs., Inc. v. Invitrogen Corp.*, 406 F.3d 1347 (Fed. Cir. 2005). In what it considered a case of “virtual” first impression, the Federal Circuit held that a patent owner must have a reasonable belief that the patent numbers it marks on its products correspond to patents that actually cover the marked products. However, the Federal Circuit left open the question of what exactly the patent owner must do to form a reasonable belief that the patents cover the products.

The false marking statute, 35 U.S.C. § 292, imposes a fine of up to \$500 per offense on anyone who falsely marks an “unpatented article” with a patent number or the word “patented” for “the purpose of deceiving the public.” The pre-Federal Circuit cases that analyzed the statute focused on the patent owner’s intent to deceive the public. Thus, knowingly but in good faith marking patent numbers on a product not covered by the patents, *e.g.*, to give the public notice of a portfolio of related rights, would not give rise to a false marking violation.

The requirement that the patent owner intend to deceive the public changed with *Clontech*. There, the Federal Circuit first examined the false marking statute and explained that “unpatented article” means that “the article in question is not covered by at least one claim of each patent with which the article is marked.” To make that determination, “the claim in question must be interpreted to ascertain its correct scope, and then it must be ascertained if the claim reads on the article in question.”

The Federal Circuit then focused on the requirement that the false marking be made with the purpose of deceiving the public. The Court held that a plaintiff seeking to establish false marking must show by a “preponderance of the evidence that the party accused of false marking did not have a reasonable belief that the articles were properly marked (*i.e.*, covered by a patent).”

Thus, in light of *Clontech*, a patent owner who knowingly marks a product with a patent not covering the product violates the false marking statute. Importantly, however, the Federal Circuit offered no guidance about what, if anything, the patent owner must do to interpret the patent claims and read at least one claim on the marked product to satisfy itself that the marked product is not “unpatented” for purposes of the false marking statute.

Nevertheless, the bottom line remains much as it did before – patent owners should adopt procedures to ensure that they are accurately and appropriately marking their patented products to reap the benefits of patent marking provided by the Patent Act and to avoid the uncertainties of false marking claims. ■

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