

# **DEVELOPMENTS IN PATENT LAW 2008 (CASE LAW)**

**PRESENTED AT**

**THE D.C. BAR**

**WASHINGTON, D.C.**

**DECEMBER 11, 2008**

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INTELLECTUAL PROPERTY LAW

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## I. PATENTABILITY, VALIDITY, & PROCUREMENT OF PATENTS

### A. On-Sale Bar

*Atlanta Attachment Co. v. Leggett & Platt, Inc.*, 516 F.3d 1361 (Fed. Cir. 2008). A patent relating to a machine for automatically attaching gussets to a mattress was held to be invalid because it was “on sale” more than one year before the patent application was filed. Atlanta Attachment developed successive versions of a sewing machine prototype and sold them to Sealy, who tested them. Each order included quotations for quantities of the machines. Sealy ultimately decided not to purchase the machines. Atlanta Attachment filed a patent application approximately 3 years after the first prototype had been delivered. The Federal Circuit concluded that the sales of the prototypes constituted an invalidating “on sale” bar, because Sealy’s testing to determine the commercial suitability of the invention for its purposes was not the type of “experimentation” that an inventor is entitled to engage in for purposes of perfecting an invention. The Federal Circuit noted that Atlanta Attachment failed to exert control over testing of the prototypes, and thus it could not rely on the “experimental use” exception to the on-sale bar.

### B. What Constitutes Publication on the Internet

*SRI International, Inc. v. Internet Security Systems, Inc.*, 511 F.3d 1186 (Fed. Cir. 2008). SRI owned various patents on computer intrusion detection. More than one year before filing a patent application, one of the inventors posted a paper on an FTP server and sent an email to a small number of people alerting them to its presence on the server for seven days. The FTP server contained only an oblique listing of the paper along with other files on the server, so it would be difficult for someone other than the small number of people to find it. The district court concluded that this FTP posting constituted a “printed publication” that invalidated several of the patents at issue in the suit. A majority panel of the Federal Circuit disagreed, concluding that factual issues precluded summary judgment in favor of the defendant. The panel pointed out that “the record on summary judgment does not show that an anonymous user skilled in the art in 1997 would have gained access to the FTP server and would have freely navigated through the directory structure to find the Live Traffic paper.” It also found it significant that the paper was not catalogued or indexed in a meaningful way for and not intended for dissemination to the public. Judge Moore dissented, concluding that under either the “library catalog” line of cases or under the “dissemination” line of cases, the paper had clearly been “published.”

### C. Enablement

*Sitrick v. Dreamworks, LLC*, 516 F.3d 993 (Fed. Cir. 2008). In this case, the Federal Circuit has continued a recent trend of finding patents invalid in “predictable” areas of technology (such as electrical and mechanical inventions) if the “full scope” of the claim has not been enabled by the patent specification. In this case, the claim covers the insertion of the user’s visual image into a pre-existing video game or movie.

While the claim was broad enough to cover both video games and movies, the patent specification focused on how to carry out the invention for video games, and evidence showed that because movies were quite different from video games, there was insufficient information to permit the patented method to work for movies. For video games, the patent described an “intercept adapter” that could intercept signals and replace discrete images with the user’s image. For movies, however, the evidence showed that there were no address signals that could be used to trigger the replacement of characters in the movie. “Because the asserted claims are broad enough to cover both movies and video games, the patent must enable both embodiments.” Accordingly, the patent was held to be invalid for failure to enable the full scope of the claims.

D. Public Use Bar to Patentability

*American Seating Co. v. USSC Group, Inc.*, 514 F.3d 1262 (Fed. Cir. 2008). The patent statute prohibits patents on inventions that were in “public use” more than one year before the U.S. patent application was filed. In this case, the Federal Circuit concluded that an inventor who placed evolving prototypes of a tie-down system for bus seats on an out-of-service bus for the purpose of soliciting feedback from friends and colleagues did not bar patenting that invention under the U.S. patent statute. The court concluded that, “When access to an invention is clearly limited and controlled by the inventor, depending upon the relationships of the observers and the inventor, an understanding of confidentiality can be implied.” In this case, the court concluded that the limited number of people permitted to view the invention shared a general understanding of confidentiality, and that therefore the use was not “public.”

E. Obviousness (Post-KSR)

*Muniauction, Inc. v. Thomson Corp.*, 532 F.3d 1318 (Fed. Cir. 2008). Applying the U.S. Supreme Court’s 2007 decision in *KSR International v. Teleflex*, the Federal Circuit concluded that the modification of a pre-existing auction system to use web browsers would have been obvious to a person of ordinary skill in the art. Following a jury trial in which Muniauction was awarded \$77 million for infringement of its patent for an electronic auction process, Thomson Corp. appealed, arguing that the invention was obvious. The Federal Circuit agreed, pointing out that the patent specification itself observed that web browsers were conventional. It concluded that “adapting existing electronic processes to incorporate modern internet and web browser technology was similarly commonplace at the time the ‘099 patent application was filed.” This case may call into question the validity of patents that were based primarily on the innovation of incorporating common web-based features into otherwise pre-existing computer-related inventions.

*Agrizap, Inc. v. Woodstream Corp.*, 520 F.3d 1337 (Fed. Cir. 2008). A patent relating to a pest electrocution device (“zapper”) was held to be invalid for obviousness. Agrizap’s patent senses when a pest makes contact with an electrical switch and, upon detection, generates a large electrical current to electrocute the pest.

Prior inventions relied on mechanical sensors to activate the generator. The Federal Circuit concluded that it would have been obvious to replace a conventional mechanical switch with an electrical switch, explaining that “this is a textbook case of when the asserted claims involve a combination of familiar elements according to known methods that does no more than yield predictable results. . . . The asserted claims simply substitute a resistive electrical switch for the mechanical pressure switch employed by the Gopher Zapper.” The Federal Circuit found it irrelevant that the PTO had issued the patent even after considering the pre-existing Gopher Zapper.

*Ortho-McNeil Pharmaceutical, Inc. v. Mylan Laboratories, Inc.*, 520 F.3d 1358 (Fed. Cir. 2008). In this post-*KSR* obviousness case, the Federal Circuit affirmed a district court’s determination that a patent for an anti-convulsive drug was not invalid for obviousness. A scientist had accidentally discovered the later-patented epilepsy drug while searching for an anti-diabetes drug. The defendant argued that because there were only a limited number of starting compounds for finding an anti-diabetes drug, it would have been obvious to try the various alternatives and discover the patented epilepsy drug. The Federal Circuit disagreed, concluding that even if a person of ordinary skill in the art would have started with a particular compound and taken several intermediate steps, it would not have been obvious to stop at one of those intermediate steps and test the intermediate compound “for properties far afield from the purpose of the development in the first place (epilepsy rather than diabetes).” According to the Federal Circuit, the defendant merely re-traced the path of the inventor with hindsight, discounting the number and complexity of the alternatives.

*Eisai Co. Ltd v. Dr. Reddy’s Laboratories, Ltd.*, 533 F.3d 1353 (Fed. Cir. 2008). Post-*KSR*, a prima facie case of obviousness for a chemical compound still, in general, begins with the reasoned identification of a lead compound. *KSR* assumes a starting reference point or points in the art, prior to the time of invention, from which a skilled artisan might identify a problem and pursue potential solutions.

F. Utility/Patentable Subject Matter Under 35 U.S.C. § 101

*In re Bilski*, 545 F.3d 943 (Fed. Cir. 2008). In this closely-watched en banc decision originating from the PTO, the Federal Circuit clarified what kinds of process claims can be patented. Bilski’s claim recited a method of managing consumption risk, including various steps such as “initiating a series of transactions” and “identifying market participants.” The PTO rejected the claim on the basis that it was not a “process” as that term is understood in patent law. According to the PTO, in order to be patentable, a process must either be tied to a particular machine or it must transform something tangible. Because Bilski’s invention did neither, it did not meet the definition of a “process.”

A majority of the Federal Circuit agreed, concluding that a process is not eligible for patent protection unless it either involves a physical transformation or it is tied to a particular machine – essentially the same test applied by the PTO in rejecting

Bilski's patent application. Chief Judge Paul Michel, writing for the majority of the court, relied on several 1970s-era U.S. Supreme Court decisions in finding that the invention was not patentable. The court distinguished an earlier U.S. Supreme Court case involving the patentability of a process performed on a computer, concluding that the earlier decision presented "a difficult case under its own test." In that earlier case, the only possible use of the process was on a digital computer, which the U.S. Supreme Court found wholly preempted the use of the process. Chief Judge Michel stated that while the Supreme Court might ultimately decide to change the test for patentability, "we see no need for such a departure and reaffirm that the machine-or-transformation test, properly applied, is the governing test for determining patent eligibility of a process." In this case, the process did not involve any transformation nor was it tied to any particular machine.

Chief Judge Michel also noted that clever patent attorneys might try to avoid the patentability test by adding some type of insignificant physical steps or features to the patent, and warned that "even if a claim recites a specific machine or a particular transformation of a specific article, the recited machine or transformation must not constitute mere 'insignificant post-solution activity.'"

The majority also distanced itself from the Federal Circuit's earlier 1998 decision in *State Street Bank & Trust Co. v. Signature Financial Group*, which had seemingly opened the door to business method patents as long as the invention involved a "useful, concrete and tangible result." The court stated that portions of that earlier opinion should no longer be relied on in deciding whether a process-related invention is eligible for a patent. According to Chief Judge Michel, "we also conclude that the 'useful, concrete and tangible result' inquiry is inadequate and reaffirm that the machine-or-transformation test outline by the Supreme Court is the proper test to apply." The court did, however, reject the suggestion that a patent must involve "technology," a position advanced by several amicus parties and urged by Judge Mayer in dissenting from the majority opinion. According to Judge Mayer's dissent, the majority opinion's test could be circumvented through clever patent drafting, and, citing numerous articles critical of business method patents, he argued that "the patent system has run amok." The majority also rejected the argument that merely because a patent related to a method of doing business it should not be patentable.

Two judges filed lengthy dissenting opinions, arguing that the settled business expectations of numerous industries would be disrupted, and that wide-ranging areas of the information economy would suddenly become off-limits to patenting. Judge Newman pointed out that more than 15,000 computer-related business method patents had issued in such fields as banking and finance, insurance, data processing, industrial engineering, and medicine. She complained that "I don't know how much human creativity and commercial activity will be devalued by today's change in law; but neither do my colleagues."

#### G. Definiteness

*Microprocessor Enhancement Corp. v. Texas Instruments Inc.*, 520 F.3d 1367 (Fed. Cir. 2008). A method claim that recited many structural details of the system in which it was to be performed was not invalid for indefiniteness on the ground that it impermissibly mixed two distinct classes of patentable subject matter. Similarly, an apparatus claim that recited several functional steps was deemed to be not invalid on the same ground. The drafting structure of independent method claim 1 was as follows:

1. A method of executing instructions in a pipelined processor comprising:  
[structural limitations of the pipelined processor];  
the method further comprising:  
[method steps implemented in the pipelined processor].

According to the Federal Circuit, “direct infringement of claim 1 is clearly limited to practicing the claimed method in a pipelined processor possessing the requisite structure.” It further explained that, “apparatus claims are not necessarily indefinite for using functional language.”

*Aristocrat Technologies Australia v. International Game Technology*, 521 F.3d 1328 (Fed. Cir. 2008). A patent for an electronic slot machine was declared to be invalid because the claims were indefinite. The patented invention supposedly increased player interest in the game by allowing the player to select what would become the winning combinations on the displayed game outcome. The district court ruled on summary judgment that the patent was invalid because the claimed “game control means,” which was deemed to be a means-plus-function limitation, was insufficiently described in the patent specification. The Federal Circuit affirmed, concluding that “for a patentee to claim a means for performing a particular function and then to disclose only a general purpose computer as the structure designed to perform that function amounts to pure functional claiming. 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 the patent statute. In this case, the patent’s reference to “appropriate programming” was insufficient to describe the particular algorithm that the computer software would perform to carry out the claimed function.

*Halliburton Energy Services, Inc. v. M-I LLC*, 514 F.3d 1244 (Fed. Cir. 2008). The Federal Circuit held that the term “fragile gel” used in the claims of a patent rendered them indefinite because the patent specification failed to provide sufficient information to define this term. “When a claim limitation is defined in purely functional terms, the task of determining whether that limitation is sufficiently definite is a difficult one that is highly dependent on context (e.g., the disclosure in the specification and the knowledge of a person of ordinary skill in the relevant art area).” The court noted that the patent drafter could have resolved the ambiguity in a number of ways, such as by using a quantitative metric (e.g., numeric limitation) rather than a qualitative functional measure, or by providing a formula for calculating a property along with examples that meet the claim limitation and examples that do

not.

#### H. Inventorship

*E.I. du Pont de Nemours and Co. v. MacDermid Printing Solutions, LLC.*, 525 F.3d 1353 (Fed. Cir. 2008). The failure to name identical inventors on a provisional application and a subsequent non-provisional patent application did not invalidate the later-issued patent for improper inventorship. Du Pont filed a provisional patent application listing only a single inventor, and later filed a non-provisional application naming five inventors. The provisional and non-provisional patent applications were identical. The Federal Circuit concluded that all that was required was an overlap in inventorship – i.e., at least one inventor common to both the provisional and non-provisional patent applications.

#### I. Effect of Inter Partes Reexamination Statute on Continuation Applications

*Cooper Technologies Co. v. Dudas*, 513 F.3d 1330 (Fed. Cir. 2008). The Federal Circuit decided that the *inter partes* reexamination statute, which is applicable only to patent applications filed on or after November 29, 1999, applies to patent applications that are continuations of patent applications filed prior to that date. Applying *Chevron* deference to the PTO's interpretation of the statute, the Federal Circuit concluded that the phrase "original application" in the statute was permissibly interpreted by the U.S. PTO to cover patent applications that claimed priority to patent applications filed before the effective date of the statute.

#### J. Ability of Patent Owner to Add New Claims During Reexamination

*Cordis Corp. v. Medtronic AVE, Inc.*, 511 F.3d 1157 (Fed. Cir. 2008). A district court invalidated one claim of patent because it was added during reexamination of the patent not in response to an adverse determination of patentability by the PTO but instead solely to cover a competitor's product. The Federal Circuit reversed, concluding that "Cordis was free to include the new claims even apart from the office action if they were added to distinguish the invention from the prior art. . . . Section 305 does not require the patent owner to include an express statement that the new claims distinguish the prior art or remarks indicating how the new claims distinguish the prior art references."

#### K. Obviousness-Type Double Patenting

*Pfizer, Inc. v. Teva Pharmaceuticals USA, Inc.*, 518 F.3d 1353 (Fed. Cir. 2008). One of Pfizer's patents covering the anti-inflammatory drug CELEBREX was held to be invalid for obviousness-type double patenting. Upon receiving a restriction requirement for multiple inventions in a patent application, Pfizer filed a divisional application directed to one of the non-elected inventions and also filed a continuation-in-part (CIP) to pursue one of the other non-elected inventions. Teva argued that the CIP application was not entitled to the benefit of 35 U.S.C. § 121,

which prevents the use of an earlier application from being used against a later application if the PTO issues a restriction requirement. The Federal Circuit held that a CIP application, which adds new matter to a previously-filed application, is not entitled to the same benefits as a divisional application, which contains identical subject matter to the previously-filed application, and therefore the CIP was not entitled to the protection of 35 U.S.C. § 121. Lacking this protection, the earlier-filed parent application could be used to establish obviousness-type double patenting, thus rendering the later claims invalid. The Federal Circuit rejected Pfizer's argument that a divisional application includes any type of application filed after receiving a restriction requirement from the PTO.

L. Prior Art References Must Show Same Arrangement as Claim

*Net Moneyin, Inc. v. Verisign, Inc.*, 545 F.3d 1359 (Fed. Cir. 2008). In order to invalidate a claim, a prior art reference must disclose the same arrangement or combination as the claim. In this case, although a prior art reference showed all the elements of the claims, the different elements were disclosed in alternative embodiments – i.e., they were not arranged or combined in the same way as the claim that was sought to be invalidated. According to the Federal Circuit, “the reference discloses two separate protocols for processing an Internet credit card transaction. Neither of these protocols contains all five links arranged or combined in the same way as claimed in the ‘737 patent.’”

## II. INTERPRETATION OF PATENTS

A. Claim Construction

*Decisioning.com, Inc. v. Federated Department Stores, Inc.*, 527 F.3d 1300 (Fed. Cir. 2008). Decisioning.com's patent related to a closed-loop system for automatically processing loans and credit cards without human intervention. The district court granted summary judgment of non-infringement in favor of the defendants, concluding that the claimed “remote interface” could not cover home computers operated by consumers. The Federal Circuit affirmed, concluding that “remote interface” referred only to publicly-accessible computer equipment (e.g., a kiosk) that was remote from the main data processing system, and excluded personal computers controlled by consumers from their homes. While the patent itself made no mention of the claim term “remote interface,” it used the term “interface” with reference to a “kiosk,” which was illustrated as a stand-alone publicly accessible piece of equipment. Furthermore, the abstract of the patent stated that the kiosk was an “important feature of the present invention,” a phrase that the Federal Circuit found significant. The common meaning of “kiosk” strongly suggested a publicly-accessible location, and the patent description referred to “convenient locations” for the kiosk including airports, banks, and shopping areas. Judge Linn dissented, concluding that there was no “public accessibility” requirement for the claimed “remote interface.”

*Lucent Technologies, Inc. v. Gateway, Inc.*, 525 F.3d 1200 (Fed. Cir. 2008). The claim phrase “each successive iteration including the steps of” was interpreted to require that all of the steps following this phrase must each be performed in forming each pulse, even though the patent specification did not support this interpretation. The patent owner argued that the claim should have been interpreted to require only that step 5 be performed in forming each pulse, whereas steps 1-4 could be performed only once per frame. The Federal Circuit concluded that “the claim language clearly supports the district court’s claim construction. This court has repeatedly held that courts may not redraft claims to cure a drafting error made by the patentee, whether to make them operable or to sustain their validity.”

*Tivo, Inc. v. Echostar Communications Corp.*, 516 F.3d 1290 (Fed. Cir. 2008). Tivo sued Echostar for infringing its patent on time-shifting TV technology. The district court ruled in favor of Tivo and entered a permanent injunction against Echostar. On appeal, the Federal Circuit affirmed the infringement finding as to several claims of the patent, but reversed the judgment regarding infringement of other claims of the patent. The Federal Circuit upheld the award of \$73 million in damages. As to some of the claims, the Federal Circuit concluded that because the patent specification stated that, “the invention parses the MPEG stream and separates it into its video and audio components. It then stores the components into temporary buffers,” the patent owner had clearly stated a requirement for the invention as a whole, thus limiting the claims of the patent. “As this court recently held, ‘when a patent thus describes the feature of the “present invention” as a whole, this description limits the scope of the invention.’” Accordingly, some claims of the patent were held to be not infringed by Echostar, because Echostar’s devices did not separate the components into separate buffers as described in the patent specification. Nevertheless, the court upheld the award of damages and upheld the issuance of an injunction against Echostar for the remaining claims.

#### B. Prosecution Disclaimer

*Computer Docking Station Corp. v. Dell, Inc.*, 519 F.3d 1366 (Fed. Cir. 2008). Patent claims reciting a “portable computer” were limited to computers that lacked displays – i.e., the claims excluded laptop computers. During prosecution, the patent owner stated that, “Rather than requiring a portable display and keyboard, the present invention concentrates on portability of an exceptionally large memory capacity in hard disk drives . . . For the same sized unit as a conventional lap-top computer, the invention does require that peripherals be made available at each location.” The Federal Circuit concluded that these statements clearly distinguished prior technology having built-in displays or keyboards and that the invention required that peripherals including displays be separately provided.

#### C. Prosecution History Estoppel

*Honeywell International, Inc. v. Hamilton Sundstrand Corp.*, 523 F.3d 1304 (Fed. Cir. 2008). In another of a long string of hard-to-prove infringement cases relying on

the doctrine of equivalents, the Federal Circuit upheld a district court's ruling that prosecution history estoppel precluded Honeywell from asserting infringement. The patents relate to controlling airflow surge in auxiliary power units used to generate electricity and compressed air in aircraft. The claims included a compressor having adjustable inlet guide vanes, a feature that had been added to the claims during prosecution of the patent. Honeywell argued that Hamilton's accused equivalent of this feature was not foreseeable. The Federal Circuit disagreed, concluding that "Foreseeability does not require that the accused infringing product or process be foreseeable, nor that any equivalent exist at the time; rather foreseeability only requires that one of ordinary skill in the art would have reasonably foreseen the proposed equivalent at the pertinent time." In this case, the evidence showed that a person of ordinary skill in the art would have known of the use of IGV position to distinguish between high and low flow in order to resolve the double solution problem during 1982-83. Honeywell could have foreseen and included the alleged equivalent in the claims when they were amended. As a result, Honeywell did not rebut the presumption of surrender with evidence of unforeseeability.

#### D. Infringement

*Muniauction, Inc. v. Thomson Corp.*, 532 F.3d 1318 (Fed. Cir. 2008). A process patent having steps that were collectively performed by two different actors was held to be not infringed. Muniauction's patent covered a process for conducting an auction, including various steps of inputting data with a bid; automatically computing interest costs; submitting the bid; and sending a message between various computers in the network. Following a jury verdict of infringement, the district court awarded \$77 million in damages, and Thomson appealed. The problem was that the step of inputting bid data was performed by a bidder, whereas the remaining steps of the process claim were allegedly performed by defendant Thomson Corp. Despite the fact that defendant Thomson Corp. provided software and a website allowing bidders to place bids over the Internet, the Federal Circuit concluded that "Thomson neither performed every step of the claimed methods nor had another party perform steps on its behalf."

*Roche Palo Alto LLC v. Apotex Inc.*, 531 F.3d 1372 (Fed. Cir. 2008). The owner of a patent covering anti-inflammatory eye drops sued a generic manufacturer of eye drops for patent infringement. The district court granted summary judgment of infringement in favor of the patent owner. The Federal Circuit affirmed, concluding that, "The reverse doctrine of equivalents is rarely applied, and this court has never affirmed a finding of non-infringement under the reverse doctrine of equivalents." The Federal Circuit concluded that the defendant's argument regarding the "principles of operation" of the patented invention was not reflected in the patent itself.

*Proveris Scientific Corp. v. Innovasystems, Inc.*, 536 F.3d 1256 (Fed. Cir. 2008). The Hatch-Waxman "safe harbor" provisions that protect certain infringing activities reasonably related to development and submission of information to the FDA did not

immunize the sale of devices that are used to test aerosol sprays commonly used in drug delivery devices such as nasal pumps and inhalers. Innova's device is used in connection with FDA regulatory submissions by measuring physical parameters of aerosol sprays used in nasal spray delivery devices, and it argued that its device was immunized from infringement because its devices are used by third parties solely for the development and submission of information to the FDA. The Federal Circuit disagreed, concluding that "the basic idea behind this [Hatch-Waxman] provision was to allow competitors to begin the regulatory approval process while the patent was still in force." In this case, Innova was not a party seeking FDA approval for a product in order to enter the market to compete with patentees. Because the accused device was not subject to FDA premarket approval and faced no regulatory barriers to market entry upon patent expiration, Innova was not someone who would have been affected by an improper de facto patent term extension caused by FDA regulatory delays.

*Egyptian Goddess, Inc. v. Swisa, Inc.*, 543 F.3d 665 (Fed. Cir. 2008) (en banc). In this closely-watched case involving design patents, the Federal Circuit threw out the "point of novelty" test for design patent infringement. The owner of a design patent for a nail buffer sued an alleged infringer, but the district court ruled on summary judgment that the patent was not infringed. Under prior Federal Circuit case law, the owner of a design patent had to establish both that (1) the accused design was "substantially similar" to the patented design under the "ordinary observer" test, and that (2) the accused design appropriated the "points of novelty" of the patented design that distinguished over the prior art. In this case, The Federal Circuit concluded that the "points of novelty" test was not a requirement for design patent infringement, thus making it easier to prove infringement. The court did, however, note that the "ordinary observer" test could be applied with reference to prior art designs, such that the prior art provided a "frame of reference" to gauge similarity. "If the accused design has copied a particular feature of the claimed design that departs conspicuously from the prior art, the accused design is naturally more likely to be regarded as deceptively similar to the claimed design." The court also stated that the burden of production as to any comparison prior art should be on the accused infringer, not the patent holder. The Federal Circuit also stated that district courts need not provide a detailed verbal description of the claimed design in patent cases.

### III. ENFORCEMENT OF PATENTS

#### A. Ownership of Patents

*DDB Technologies, LLC v. MLB Advanced Media, LP*, 517 F.3d 1284 (Fed. Cir. 2008). The question of whether an employment agreement automatically assigned rights in patents to the employer was deemed to be a Federal issue, not a state law issue. In this case, an employment agreement stated that the employee “agrees to and does hereby grant and assign” all rights in future inventions falling within the scope of the agreement to Schlumberger. Applying its own case law, the Federal Circuit held that this language constituted a present assignment of future invention rights, and no further agreements were necessary to cause the invention rights to be transferred. Whether the patents at issue “related to the business or activities” of Schlumberger, however, were determined under state law, in this case the law of Texas.

*Akazawa v. Link New Technology International*, 520 F.3d 1354 (Fed. Cir. 2008). The sole Japanese inventor on a U.S. patent died without a will, and under Japanese law his estate (including his ownership in the U.S. patent) passed to his heirs. Some of the heirs assigned their rights to another person, who then assigned his rights to the plaintiff in the lawsuit. The district court granted summary judgment to the defendant on the ground that there was no executed assignment of patent rights from the estate to the plaintiff. The Federal Circuit vacated the decision, concluding that the district court should have interpreted Japanese law to decide ownership of the patent, and that written assignments are not the only mechanism by which ownership in U.S. patents may be transferred.

#### B. Damages

*American Seating Co. v. USSC Group, Inc.*, 514 F.3d 1262 (Fed. Cir. 2008). The Federal Circuit affirmed a district court’s grant of a motion to set aside a verdict of patent infringement damages for “convoyed sales” because the patentee’s argument that it should have been able to collect not only damages for the patented invention but for related sales was flawed. According to the Federal Circuit, “Tie-downs [the patented invention] and passenger seats [not patented] were usually but not always purchased by bus manufacturers from the same company.” The court also noted that, because “it is clear that no interrelated or functionally relationship inheres between the seats and the [patented] tie-down restraints system on a passenger bus, the district court was correct that the jury had no basis to conclude that lost profits on collateral sales of passenger seats were due American Seating.”

#### C. Injunctions (Post-eBay)

*Voda v. Cordis Corp.*, 536 F.3d 1311 (Fed. Cir. 2008). A medical doctor sued Cordis for patent infringement, and a jury found infringement and awarded damages, but the

district court refused to enter a permanent injunction. On appeal, the Federal Circuit affirmed the denial of a permanent injunction, noting that the patent owner could not show irreparable harm based on harms suffered by his exclusive licensee. Despite language in the Supreme Court's *eBay* decision suggesting that licensees might be able to satisfy the traditional test for a permanent injunction, the Federal Circuit concluded that the patent owner himself must show irreparable injury. In this case, damages were adequate to compensate for the infringement. (Note: this decision may have a far-reaching effect on the ability of exclusive licensees to obtain permanent injunctions).

*Erico International Corp. v. Vutec Corp.*, 516 F.3d 1350 (Fed. Cir. 2008). Post-*KSR*, a preliminary injunction was vacated because the asserted prior art "cast doubt" on the validity of the patent, even though the PTO had re-examined the patent at issue.

D. "Improper Revival" as a Defense to Patent Infringement

*Aristocrat Technologies Australia Pty Ltd. v. International Game Technology*, 543 F.3d 657 (Fed. Cir. 2008). A patent was declared invalid by a district court because it was "improperly revived" by the PTO. Aristocrat missed by one day the deadline to pay the fee for entering the U.S. national stage of an international patent application, and it filed a petition in the PTO to revive the application for "unintentional" abandonment. The PTO granted the petition, and the patent was ultimately issued. In litigation, the defendant argued that the PTO had no authority to revive the application under the statute, and the district court agreed. On appeal, the Federal Circuit concluded that "improper revival" was not a recognizable defense to patent infringement. According to the Federal Circuit, Section 282 provides a list of defenses to patent infringement, but "improper revival" is not a valid defense. The court further stated that "procedural lapses during examination, should they occur, do not provide grounds of invalidity. Absent proof of inequitable conduct, the examiner's or the applicant's absolute compliance with the internal rules of patent examination becomes irrelevant after the patent has issued."

E. Extraterritorial Effect of U.S. Patents

*Litecubes, LLC v. Northern Light Prods, Inc.*, 523 F.3d 1353 (Fed. Cir. 2008). Products that were sold in Canada "free on board" (FOB) and then shipped to customers in the United States constituted infringing sales of the product within the United States for purposes of patent law.

F. Inequitable Conduct

*Star Scientific, Inc. v. R.J. Reynolds Tobacco Co.*, 537 F.3d 1357 (Fed. Cir. 2008). In this important case, the Federal Circuit stated that the penalty of inequitable conduct (i.e., the patent becomes unenforceable) was severe and that "just as it is inequitable to permit a patentee who obtained his patent through deliberate misrepresentations or omissions to enforce the patent against others, it is also inequitable to strike down an

entire patent where the patentee only committed minor missteps or acted with minimal culpability or in good faith. As a result, courts must ensure that an accused infringer asserting inequitable conduct has met his burden on materiality and deceptive intent with clear and convincing evidence before exercising its discretion on whether to render a patent unenforceable.” In this case, the accused infringer failed to produce any concrete evidence that an article not submitted to the PTO was intentionally withheld from the PTO. The court also stated that “inferences drawn from lesser evidence cannot satisfy the deceptive intent requirement.”

*Aventis Pharma S.A. v. Amphastar Pharmaceuticals, Inc.*, 525 F.3d 1334 (Fed. Cir. 2008). A patent was declared to be unenforceable for inequitable conduct because a declaration submitted to the PTO to overcome a rejection allegedly failed to include sufficient information regarding the dosages used to produce the results obtained. From this, the panel concluded that intent to deceive the PTO could be inferred. Judge Rader dissented, arguing that “inequitable conduct has taken on a new life as a litigation tactic” that impugns the integrity of patent owners, their counsel, and the patent itself. He urged the court to revisit the degree to which intent to deceive must be proved by evidence rather than inferences.

#### G. Collateral Estoppel – Devices in Prior Suit Not “Essentially the Same”

*Acumed LLC v. Stryker Corp.*, 525 F.3d 1319 (Fed. Cir. 2008). Acumed sued Stryker for infringing a patent directed to a nail used to fix bone fractures. Stryker’s accused product in that suit was the T2 Proximal Humeral Nail. During discovery, Acumed learned that Stryker had developed a longer version of the nail known as T2 Long. Approximately four months after the close of discovery, Stryker began marketing its T2 Long nail. The district court offered to allow Acumed to amend the complaint to add allegations regarding the new design but warned Acumed that it would delay the trial. Acumed chose to proceed to trial, and the court entered judgment in favor of Acumed. Shortly thereafter, Acumed filed a new complaint against Stryker over the modified design, but the district court dismissed the complaint for collateral estoppel. The Federal Circuit reversed, concluding that collateral estoppel (claim preclusion) does not apply unless the accused device in the second action is “essentially the same as” or has “merely colorable differences from” the accused device in the earlier action. In this case, the district court erroneously applied a “could have been litigated” standard instead of the “essentially the same” standard. Stryker had admitted that the modified T2 design was not “essentially the same” as the earlier design.

#### H. Patent Exhaustion

*Quanta Computer, Inc. v. LG Electronics, Inc.*, 128 S.Ct. 2109 (2008). LG licensed Intel to make and sell computer chips under certain LG computer patents. The patents included both method claims and apparatus claims relating to computer systems. The only practical use of the licensed chips was for use in computer systems that would infringe LG’s patents. The license granted Intel the right to

make, use, sell, or import products under the patents, but it contained a limitation that no license was granted to third parties to combine the licensed products with non-Intel parts. In a separate agreement, Intel agreed to provide notice to its customers that no license was granted for combining the licensed Intel parts with any non-Intel parts. After Quanta purchased Intel's chips and combined them with other non-Intel parts in a way that allegedly infringed LG's patents, LG sued Quanta for patent infringement. The district court concluded that the license to Intel exhausted the patent rights, but the Federal Circuit reversed, concluding that (1) patent exhaustion did not apply to method claims, and (2) the Intel license was conditional and specifically excluded other combinations that might infringe the patent. The U.S. Supreme Court reversed, concluding that the patents were exhausted.

First, the U.S. Supreme Court reviewed the basic principle of patent exhaustion under U.S. patent law: the authorized sale of a patented item terminates any patent rights as to that item. In an earlier case (*Univis Lens*), the Court had ruled that when a patent owner sold blank lenses that were intended to be finished into lenses that would infringe a patent, the patent owner had exhausted all patent rights in the lenses and could not sue end users who processed the blank lenses into a finished product. From this earlier case, the Court concluded that if an item "sufficiently embodies the patent – even if it does not completely practice the patent – such that its only and intended use is to be finished under the terms of the patent," then patent exhaustion would apply.

Second, the Court concluded that the patent exhaustion doctrine should not be limited to apparatus claims, but could also apply to method claims, even though the sale of a patented product was not necessarily a sale of a "method." It pointed out that the *Univis Lens* case had found patent exhaustion not only as to apparatus claims but also as to method claims.

Third, the Court concluded that the Intel parts licensed under the LG patents were capable of use only in practicing the LG patents, and that the Intel products constituted a material part of the patented invention. While the licensed sale of Intel's products did not necessarily exhaust rights in all of LG's patent portfolio, the relevant consideration was whether the products that partially practiced an LG patent embodied the patent's "essential features."

Fourth, the Court concluded that the products sold by Intel were licensed, thus exhausting the patent rights. The Court carefully reviewed the Intel/LG license agreement, concluding that the license was not conditioned on restricting use of the products to certain uses (e.g., use with Intel products). According to the Court, "Nothing in the License Agreement restricts Intel's right to sell its microprocessors and chipsets to purchasers who intend to combine them with non-Intel parts." The purported non-license to third parties, such as Quanta, was deemed to be irrelevant, because the license to Intel exhausted the patent rights. The Court stated that, "Because Intel was authorized to sell its products to Quanta, the doctrine of patent exhaustion prevents LGE from further asserting its patent rights with respect to the

patents substantially embodied by those products.”

Significantly, the Court distinguished some of its earlier cases in which the patent license expressly conditioned the license on particular end uses of the patented items, suggesting that it is still permissible for patent owners to condition the license grant to particular end uses. The Court pointed out that the requirement that Intel provide notice to its customers about the use of non-Intel products was contained only in a separate agreement, and did not form part of the Intel license.

There are several important points arising from this case. First, patent exhaustion may apply not only to apparatus claims, but also to method claims. Second, the Court has suggested that the doctrine of patent exhaustion can be avoided through careful license drafting. If, for example, the Intel license had been conditioned on the end use of the licensed parts, it seems that the Court would have treated the sale to Quanta as an unauthorized sale, which would take it outside the scope of the patent exhaustion doctrine. Third, although the Court did not explicitly base its decision on the “patent exhaustion” language appearing in the Intel license, the Court referred to this language, suggesting that the parties should have been on notice regarding the possible application of patent exhaustion to the licensed products. Finally, despite the fact that the U.S. Government argued that parties should not be able to avoid the patent exhaustion doctrine through clever license drafting, the Court did not address this argument, suggesting that it did not agree with it.

#### I. Declaratory Judgment Jurisdiction for Patent Suits

*Prasco, LLC v. Medicis Pharm. Corp.*, 537 F.3d 1329 (Fed. Cir. 2008). Merely placing patent numbers on a competing product does not give rise to declaratory judgment jurisdiction for a patent lawsuit. In this case, Medicis marked its patent numbers on its cleansing product. Prasco made a product that directly competed with the patented product, but Medicis (the patent owner) was not even aware of Prasco’s competing product until Prasco filed a declaratory judgment action against Medicis seeking a declaration that it did not infringe the patent. Applying the U.S. Supreme Court’s 2007 decision in *MedImmune, Inc. v. Genentech, Inc.*, the Federal Circuit concluded that Prasco did not allege a controversy of sufficient “immediacy and reality” to create a justiciable controversy. The court also stated that a patent owner who receives a letter requesting that he take a position on infringement need not respond to such letters. Rejecting Prasco’s argument that it had sent samples to Medicis asking Medicis to confirm that it did not infringe, the court stated that, “a patentee has no obligation to spend the time and money to test a competitor’s product nor to make a definitive determination, at the time and place of the competitor’s choosing, that it will never bring an infringement suit. And the patentee’s silence does not alone make an infringement action or other interference with the plaintiff’s business imminent.”

*Cat Tech LLC v. TubeMaster, Inc.*, 528 F.3d 871 (Fed. Cir. 2008). If a declaratory judgment plaintiff has not taken “significant, concrete steps to conduct infringing

activity,” the dispute does not meet the “immediacy” or “reality” requirements for a justiciable controversy sufficient to invoke declaratory judgment jurisdiction. In this case, declaratory judgment plaintiff TubeMaster took “significant, concrete steps” to conduct allegedly infringing activity because it had prepared detailed engineering drawings for device configurations that would allegedly have infringed Cat Tech’s patent. The dispute was also “real” because TubeMaster’s design was “substantially fixed” and not subject to further modifications before being sold to customers. Even though TubeMaster had not yet contacted prospective customers to sell the design and had not yet prepared draft sales literature, the “meaningful preparation” of allegedly infringing activity was sufficient to invoke declaratory judgment jurisdiction.

*Micron Technology, Inc. v. MOSAID Technologies, Inc.*, 518 F.3d 897 (Fed. Cir. 2008). Micron and MOSAID are competitors in the field of dynamic random access memory (DRAM) chips. MOSAID sent a warning letter to Micron strongly suggesting that Micron should license its patents and followed up with other letters over the course of a year. MOSAID then filed lawsuits against other DRAM manufacturers, and included in its public annual report a statement that it believed that all DRAM manufacturers used its patented technology, and that it would “aggressively pursue” its objective of applying its IP portfolio to competitors. Micron filed a declaratory judgment action in California seeking a declaration that it did not infringe, and MOSAID filed a countersuit the next day in Texas. MOSAID moved to dismiss the California suit on the basis that Micron had no “reasonable apprehension of suit” at the time it was filed. The district court agreed, but the Federal Circuit reversed, concluding that the Supreme Court’s new standard under *MedImmune* required only that there be a “substantial controversy between parties having adverse legal interests of sufficient immediacy and reality.” The Federal Circuit dismissed the four-year gap between MOSAID’s last letter to Micron, noting that MOSAID was busy suing its other competitors during that time. The Federal Circuit also pointed to the statement in MOSAID’s annual reporting regarding its “aggressive” IP portfolio strategy. The Federal Circuit hinted that courts should focus on whether a particular suit should be transferred to another jurisdiction for “convenience factors” similar to those under the venue transfer statute.

J. “Reverse Payments” to Generic Manufacturers Not Antitrust Violation

*In re Ciprofloxacin Hydrochloride Antitrust Litigation*, 544 F.3d 1323 (Fed. Cir. 2008). Buyers of brand-name antibiotic drugs sued, alleging that patent lawsuit settlement agreements in which the patent owner paid money to generic manufacturers constituted an antitrust violation. After generic drug companies filed a request to produce generic versions of the drug before the patent expired, Bayer sued, alleging patent infringement. Just before trial, the generic drug companies agreed not to produce a generic version of the drug until after the patent expired, and Bayer agreed to make payments to the generic drug companies. The district court ruled that there was no antitrust violation, and the Federal Circuit affirmed. According to the Federal Circuit, under a “rule of reason” analysis, there was no

evidence that the reverse payment agreements constituted a bottleneck on challenges to the patent or otherwise restrained competition outside the “exclusionary zone” of the patent.

K. Authority of ITC to Block Imports With Limited Exclusion Orders

*Kyocera Wireless Corp. v. International Trade Comm’n*, 545 F.3d 1340 (Fed. Cir. 2008). The ITC issued a limited exclusion order (LEO) that not only prohibited Qualcomm, the importer, from importing infringing electronic chips, but also extended to manufacturers who imported products incorporating the infringing chips, even though they were not named as respondents in Broadcom’s ITC complaint. The Federal Circuit reversed, concluding that the ITC had no authority to enjoin non-named parties through an LEO. To cover the manufacturers, the ITC would have had to issue a general exclusion order (GEO), which is much harder to obtain. The case could complicate efforts by patent owners to use the ITC to enforce their patents, because patent owners may be reluctant to name their customers in an ITC complaint.

L. Venue in Patent Cases – Particularly the Eastern District of Texas

*In re Volkswagen of America Inc.*, 545 F.3d 304 (5<sup>th</sup> Cir. 2008). In this non-patent case from the Fifth Circuit, the en banc court made clear that judges in the Eastern District of Texas, who are alleged to rarely transfer cases from their jurisdiction, must strictly follow the statute when deciding motions to transfer under 28 USC § 1404. The plaintiff’s choice of venue should not trump all other considerations, such as the convenience of witnesses. “When the movant demonstrates that the transferee venue is clearly more convenient, it has shown good cause and the district court should therefore grant the transfer.” Because the Federal Circuit follows the law of the regional circuit on procedural matters, this case may encourage more defendants who are sued in the Eastern District of Texas to file motions to transfer to a more convenient forum.