

DEVELOPMENTS IN PATENT LAW 2007

(COURT DECISIONS)

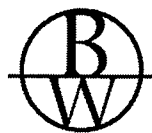
PRESENTED AT:

**THE D.C. BAR PROGRAM
ON
DEVELOPMENTS IN INTELLECTUAL PROPERTY LAW**

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INTELLECTUAL PROPERTY LAW**

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A. PATENTABILITY, VALIDITY, AND PROCUREMENT

1. ON-SALE BAR

Plumtree Software, Inc. v. Datamize, LLC, 473 F.3d 1152 (Fed. Cir. 2006). A patent claimed a method of creating computer programs using an "authoring tool." More than one year before filing a patent application on the method, the patent owner signed a contract to provide an electronic kiosk at a trade show in exchange for waiving the \$10,000 sponsor fee. The district court had ruled on summary judgment that this "offer to sell" invalidated the patent under the on-sale bar doctrine, which precludes patentability if an invention is sold more than one year before a patent application is filed. The Federal Circuit reversed, concluding that although there was a commercial offer to sell an electronic kiosk, this was not necessarily an offer to sell the claimed method of creating such a kiosk. In dictum, the court noted that it would have been an invalidating offer if the patent owner had offered to perform the patented method or had actually performed the patented method in exchange for future compensation. The written agreement did not unambiguously require the use of the patented method.

2. ENABLEMENT

Liebel-Flarsheim Co. v. Medrad, Inc., 481 F.3d 1371 (Fed. Cir. 2007). A set of patents directed to a method of loading a syringe for delivering contrast agents to patients were held by a district court to be invalid for lack of enablement, because the claims did not require a "pressure jacket," yet the patent specification made clear that such a pressure jacket was required. The Federal Circuit affirmed, rejecting the patent owner's argument that since a pressure jacket embodiment was enabled, claims omitting that element were also enabled. The Federal Circuit noted that the specification "taught away" from any embodiment lacking pressure jackets, since the Background of the Invention portion of the patent explained that injectors lacking pressure jackets were "impractical." The court also pointed to evidence that the inventors tried but failed to produce a system without pressure jackets. According to the Federal Circuit, "there must be 'reasonable enablement of the scope of the range' [of the claim] which, in this case, includes both injector systems with and without a pressure jacket."

Ormco Corp. v. Align Technology, Inc., 498 F.3d 1307 (Fed. Cir. 2007). After interpreting patent claims to require automatic rather than human-initiated determination of tooth positioning for orthodontic appliances, the Federal Circuit concluded that the claims were invalid for lack of enablement. Relying in part on evidence that one of the inventors had tried but failed to make an automatic system, the court stated that, "If an inventor attempts but fails to enable his invention in a commercial product that purports to be an embodiment of the patented invention, that is strong evidence that the patent specification lacks enablement."

Automotive Technologies Int'l. v. BMW of North Am., 501 F.3d 1274 (Fed. Cir. 2007). Claims drafted in means-plus-function format, which the patentee asserted to cover both a mechanical sensor for air bag deployment and an electronic sensor, were held to be invalid for lack of enablement. Even though a mechanical sensor was extensively discussed and described in the patent specification, the patent included only a short paragraph and a "conceptual" figure of an electronic sensor. According to the Federal Circuit, the "full scope must be enabled, and the district court was correct that the specification did not enable the full scope of the invention."

3. PUBLIC USE BAR

Motionless Keyboard Co. v. Microsoft Corp., 486 F.3d 1376 (Fed. Cir. 2007). A district court ruled on summary judgment that a patent covering a computer keyboard was invalid because it was publicly used more than one year before the patent application was filed. The Federal Circuit reversed, concluding that showing the computer keyboard to potential investors, and a one-time use of the keyboard during a typing test, did not amount to a "public use" of the invention. According to the court, "All disclosures, except for the one-time typing test, only provided a visual view of the new keyboard design without any disclosure of [its] ability to translate finger movements into actuation of keys to transmit data. In essence, these disclosures visually displayed the keyboard design without putting it into use." As to the one-time typing test, the court noted that the person doing the testing had signed a non-disclosure agreement (NDA) that created an obligation of confidentiality.

4. OBVIOUSNESS

KSR Int'l v. Teleflex, Inc., 127 S.Ct. 1727 (2007). In this groundbreaking decision, the U.S. Supreme Court raised the bar for patentability, rendering a patent invalid because it would have been obvious. Teleflex had sued KSR for patent infringement. The patent claimed an adjustable gas pedal having an electronic control mounted on a pivot point, such that the gas pedal could be adjusted forward and backward without affecting the control mechanism, which was electronic (as opposed to mechanical). The district court had ruled on summary judgment that the patent was an obvious combination of old elements, but the Federal Circuit reversed, concluding that the district court failed to establish a proper motivation to combine the old elements in the way claimed in the patent. The U.S. Supreme Court reversed, concluding that the patented design would have been obvious. After reviewing several of its decades-old decisions in this area, the Supreme Court stated that "when a patent claims a structure already known in the prior art that is altered by the mere substitution of one element for another known in the field, the combination must do more than yield a predictable result." The Court also suggested that when there are only a finite number of identified, predictable solutions to a known problem, a person of skill in the art would have good reason to try the known options – i.e., "obvious to try." In this case, the Court concluded that modifying a known mechanical gas pedal that was adjustable to incorporate an electronic (rather than mechanical) control would have been obvious, including the placement of the control on the pivot point, which was "the most obvious nonmoving point on the structure." The Court did, however, state that the person asserting invalidity (or unpatentability) of the combination must still provide some

"articulated reasoning with some rational underpinning to support the legal conclusion" of obviousness. The PTO is already rejecting an increasing number of patent applications based on this precedent-setting case. The Federal Circuit has quickly followed suit, rendering invalid most of the patents that were challenged on this basis following the Supreme Court's decisions.

Leapfrog Enterprises, Inc. v. Fisher-Price, Inc., 485 F.3d 1157 (Fed. Cir. 2007). In this post-KSR case, the Federal Circuit affirmed a district court's conclusion that a claim to an electronic toy allowing a child to hear sounds associated with different letters in the context of words in which they were used was invalid. According to the Federal Circuit, it would have been obvious to modify a prior mechanical toy to rely on electronic mechanisms: "applying modern electronics to older mechanical devices has been commonplace in recent years. . . . The combination is thus the adaptation of an old idea . . . using new technology that is commonly available."

Pfizer, Inc. v. Apotex, Inc., 480 F.3d 1348 (Fed. Cir. 2007). In this decision, issued after the U.S. Supreme Court argument in KSR but before the Supreme Court issued its decision, the Federal Circuit reversed a district court's judgment of patent validity for a patent covering the hypertension drug NORVASC. The Federal Circuit concluded that it would have been obvious for the inventor to test various compounds to verify the characteristics of each. It did not deem this to be the same as "discovering" a new compound. Three judges dissented from the denial to rehear the case en banc, arguing that the "obvious to try" standard would eviscerate many pharmaceutical patents. 488 F.3d 1377 (Fed. Cir. 2007).

Takeda Chem. Indus., Ltd. v. Alphapharm Pty, Ltd., 492 F.3d 1350 (Fed. Cir. 2007). In one of the few post-KSR cases upholding the validity of a patent challenged as obvious, the Federal Circuit concluded that "in cases involving new chemical compounds, it remains necessary to identify some reason that would have led a chemist to modify a known compound in a particular manner." In this case, the court rejected the defendant's argument that a person of skill in the art would have started with "compound b" out of hundreds of millions of compounds disclosed in an earlier patent. Instead, a 1982 article disclosed the best starting material for solving a similar problem; that article taught away from the patented invention because it showed side effects of "compound b."

5. UTILITY

In re Nuijten, 500 F.3d 1346 (Fed. Cir. 2007). Claims directed to a "signal with embedded data, the signal being encoded in accordance with a given encoding process" were held not to recite statutory subject matter because a "signal" does not fall within one of the four statutory categories of invention under 35 U.S.C. § 101. According to the Federal Circuit, a transitory signal does not qualify as an "article of manufacture" because it is not tangible. Judge Linn filed a dissenting opinion, arguing that the signals were "manufactured" and that prior cases found transitory elements, such as a water fountain pattern, to be patentable.

In re Comiskey, 499 F.3d 1365 (Fed. Cir. 2007). Claims reciting a method for conducting an arbitration, including various steps of "enrolling a person," "conducting arbitration resolution," and

“determining an award” were held not to recite statutory subject matter because they related solely to mental steps. The case was somewhat controversial because the PTO’s Board of Appeals had not rejected the claims on that basis. Instead, the Federal Circuit sua sponte decided that the claims failed to qualify as a patentable method under 35 U.S.C. § 101. According to the Federal Circuit, “mental processes – or processes of human thinking – standing alone are not patentable.” The court also stated that, “the patent statute does not allow patents on particular systems that depend for their operation on human intelligence alone.”

6. DEFINITENESS

Biomedino, LLC v. Waters Technologies Corp., 490 F.3d 946 (Fed. Cir. 2007). The Federal Circuit declared invalid a patent relating to a system for identifying drugs contained in biological materials, such as for detecting the presence of psychoactive drugs in urine samples. The claim at issue recited a “control means for automatically operating said valving.” The patent figures showed only a generically labeled box identified as “control,” and the patent merely stated that the process “may be controlled automatically by known differential pressure, valving and control equipment.” The Federal Circuit concluded that merely mentioning the use of known equipment, without identifying any specific equipment, did not render a claim to such “control means” definite. This case illustrates one of the pitfalls of relying on means-plus-function clauses in patents.

B. INTERPRETATION OF PATENTS

1. CLAIM CONSTRUCTION

Ortho-McNeil Pharm., Inc. v. Caraco Pharm. Labs. Ltd., 476 F.3d 1321 (Fed. Cir. 2007). The Federal Circuit concluded that a claim that recited a ratio of “about 1:5” should be narrowly interpreted to a range of no more than 1:3.6 to 1:7.1, based in part on testimony by the patent owner’s expert, who testified that data in the patent showed that the measured responses within this range would not exhibit any statistically different response, whereas ratios below or higher than this range would yield statistically different results. Additionally, whereas other claims recited a range of ratios, the claim at issue recited only a specific ratio with the qualifier “about.”

Hakim v. Cannon Avent Group, PLC, 479 F.3d 1313 (Fed. Cir. 2007). During prosecution of a patent for a spill-proof drinking cup, the applicant argued that the claimed “slit” reduced spillage from the cup and distinguished over the prior art. After the application was allowed, the applicant filed a continuation application, replacing the word “slit” with “opening” and submitting a letter to the PTO stating that it was broadening the claims to change “slit” to “opening.” The district court nevertheless found the interpretation of “opening” to be limited to a slit based on arguments in the parent application, and the Federal Circuit affirmed. According to the Federal Circuit, “although a disclaimer made during prosecution can be rescinded, the prosecution history must be sufficiently clear to inform the examiner that the previous disclaimer, and that the prior art that it was made to avoid, may need to be re-visited.”

Ormco Corp. v. Align Technology, Inc., 498 F.3d 1307 (Fed. Cir. 2007). The Federal Circuit held that even though the claims in a patent for orthodontic appliances for aligning teeth did not specifically require it, the claims were limited to automatic determination of tooth positions, and could not cover human positioning. It based its decision on various statements in the patent specification suggesting the importance of "automatic" positioning. Because the defendant relied on human rather than computer positioning, there could be no infringement. Judge Kathleen O'Malley, sitting by designation, filed a lengthy dissenting opinion, arguing that the majority did not even bother to interpret the words of the patent claims.

2. PROSECUTION HISTORY ESTOPPEL

Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co., Ltd., 493 F.3d 1368 (Fed. Cir. 2007). In this long-running dispute that has been to the U.S. Supreme Court and back twice, the Federal Circuit held that prosecution history estoppel applied (and no infringement could be found) because the asserted alternative accused structure – a non-magnetizable sleeve -- was foreseeable at the time a patent amendment was made. According to the Federal Circuit, an alternative is foreseeable if it is disclosed in the pertinent prior art in the field of the invention. In this case, the use of a non-magnetizable sleeve to perform the functions in the claims was shown in two German patents that were cited in a corresponding German patent application. The Federal Circuit also rejected Festo's argument that the foreseeability test requires application of the function/way/result or insubstantial differences test.

C. ENFORCEMENT OF PATENTS

1. INFRINGEMENT OF DESIGN PATENTS

Egyptian Goddess, Inc. v. Swisa, Inc., 498 F.3d 1354 (Fed. Cir. 2007), petition for rehearing en banc granted, 2007 WL 4179111. In order to prove infringement of a design patent, the patent holder must establish both that (1) an "ordinary observer" comparing the patented design with the accused design would conclude that the two designs are substantially the same; and (2) the accused device misappropriates the novelty of the patented design that distinguishes it from the prior art. In this case, the patent covered an ornamental design for a nail buffer. A split panel of the Federal Circuit concluded that in order for a combination of design elements to constitute a point of novelty, the combination must be a "non-trivial advance over the prior art." The patented four-sided nail buffer was deemed to be a "trivial" advance over a prior art three-sided nail buffer. The full Federal Circuit granted the petition for rehearing en banc, vacated the original panel decision, and invited briefing on the following questions:

- (1) Should "point of novelty" be a test for design patent infringement?
- (2) If so, (a) should the court adopt the "non-trivial advance" test adopted by the panel majority; (b) should the point of novelty test be part of the patentee's burden on infringement or

should it be an available defense; (c) should a design patentee be permitted to divide closely related features of the patented design to match features in the accused design; (d) is it permissible to find more than one point of novelty in a patented design; and (e) should the overall appearance of a design be permitted to be a point of novelty?

(3) Should claim construction apply to design patents?

2. INJUNCTIONS

Paice LLC v. Toyota Motor Corp., 504 F.3d 1293 (Fed. Cir. 2007). Following a jury trial in which Toyota was found to have infringed Paice's patent, and after a jury awarded damages of \$25 per infringing vehicle, the district judge refused to enter a permanent injunction and instead entered an order requiring that Toyota pay an on-going royalty of \$25 per vehicle until the patent expired. Although the Federal Circuit agreed that the district court had the authority to force Toyota to continue paying an ongoing royalty and rejected Paice's argument that it was entitled to have a jury determine the on-going royalty rate, the Federal Circuit nevertheless vacated and remanded because the district court provided no explanation as to why it selected \$25 as the ongoing royalty rate.

MercExchange, L.L.C. v. eBay, Inc., 500 F.Supp.2d 556 (E.D. Va. 2007). Following remand from the U.S. Supreme Court, the district judge refused to enter a permanent injunction against eBay. In applying the four-factor test dictated by the U.S. Supreme Court and concluding that irreparable harm could not be presumed, the court found that (1) MercExchange failed to establish irreparable harm based in part on its lack of commercial activity in using its own invention; (2) money damages were adequate to compensate for infringement; (3) the balance of the hardships favored neither party; and (4) the public interest slightly favored eBay.

3. DAMAGES

Wechsler v. Macke Int'l Trade, Inc., 486 F.3d 1286 (Fed. Cir. 2007). A patent owner that did not actually make products during the infringement period and did not clearly establish that it had the capacity to make its products could not obtain lost profits damages in litigation. "Normally, if the patentee is not selling a product, by definition there can be no lost profits. . . . The only exception is where the patentee has the ability to manufacture and market a product, but for some legitimate reason does not."

4. EXTRATERRITORIAL EFFECT OF PATENTS

Microsoft Corp. v. AT&T Corp., 127 S.Ct. 1746 (2007). AT&T sued Microsoft for infringing patents covering a computer to compress recorded speech based on the Microsoft Windows operating system which, when installed on a computer, performed what was claimed. In its 2005 decision, AT&T Corp. v. Microsoft Corp., 414 F.3d 1366 (Fed. Cir. 2005), the Federal Circuit held that Microsoft's export of "master" computer disks to foreign computer companies, which then duplicated software on the disks when installing them on new computers, constituted an infringing export of a "component" of a patented invention under 35 U.S.C. § 271(f), and Microsoft

was liable in damages not only for the extent of the exported disks, but for the copies of the disks that were made and then installed overseas. Based on how software is supplied (i.e., by copying), and the word "supplied" in the patent statute, the court concluded that sending a single copy abroad with the intent that it be replicated invokes liability for foreign-made copies. The Supreme Court reversed, concluding that the Windows operating system in the abstract was not a "component" of a patented invention that could be combined with other components, since it was not a physical embodiment, but akin to a blueprint for creating tangible copies. Instead, the Court stated that a copy of Windows would qualify as a "component" for patent-combination purposes. Next, the Court concluded that Microsoft only exported ("supplied") a small number of golden master disks – each containing the "component" of the invention, and that only those "components" were covered under the patent statute. The many copies of Windows that were created overseas from the master disks were not actually "supplied from" the United States, thus limiting Microsoft's liability for infringement. The Court rejected AT&T's argument that the ruling created a loophole for software inventions allowing companies to easily circumvent the laws.

Voda v. Cordis Corp., 476 F.3d 887 (Fed. Cir. 2007). The Federal Circuit held that a U.S. district court should not exercise jurisdiction over infringement claims for foreign patents. Voda, a U.S. doctor, sued Cordis Corp., a U.S.-based entity, in Oklahoma for patent infringement. In addition to alleging infringement of U.S. patents, Voda claimed that Cordis was infringing his foreign patents outside the United States. The district court granted Voda's motion to amend the complaint to add the foreign patent infringement claims (under supplemental jurisdiction, 28 U.S.C. § 1367), and Cordis filed an interlocutory appeal. The Federal Circuit granted the interlocutory appeal and concluded that even though the foreign patents were similar, principles of comity counseled against allowing the court to decide foreign patent infringement claims in U.S. courts.

5. "JOINT" INFRINGEMENT

BMC Resources, Inc. v. Paymentech, L.P., 498 F.3d 1373 (Fed. Cir. 2007). Where different steps of a method claim are performed by different legal entities, there is no infringement, whether direct or indirect. BMC's patent claimed a method of processing debit transactions without the need for a personal identification number (PIN). The claimed method recited activities involving a payee agent, a remote payment network, and a card-issuing financial institution, each of which was controlled by a different legal entity. The patent owner argued that Paymentech, in coordination with the other entities, jointly infringed the claim. According to the Federal Circuit, the patent owner would need to establish that Paymentech directly controlled the activities of the other parties, which it did not. It noted that the claim could have been drafted from the perspective of a single entity.

6. INEQUITABLE CONDUCT

McKesson Information Solutions, Inc. v. Bridge Medical, Inc., 487 F.3d 897 (Fed. Cir. 2007). The Federal Circuit upheld a finding of inequitable conduct where an applicant failed to inform the PTO about the allowance of claims to a three-node communication system in another patent application and by not disclosing to the PTO adverse decisions by another patent examiner in a

related patent application. The patent concerned a patient identification system that used bar codes and terminals to identify hospital patients and medications. The Federal Circuit concluded that the patent attorney provided no credible explanation for failing to disclose the facts to the PTO.

eSpeed, Inc. v. BrokerTec USA, L.L.C., 480 F.3d 1129 (Fed. Cir. 2007). A district court held that a patent pertaining to automated methods for trading financial instruments was unenforceable due to inequitable conduct. In the early 1990s, Cantor Fitzgerald developed and used a new "Super System" for computerized trading, but found that it was too slow. It continued to improve the efficiency of the system, and ultimately filed a patent application leading to the patent in suit. The patent applicants never disclosed the prior use of the Super System. After filing a lawsuit against a competitor, the outside law firm realized that the Super System had never been disclosed to the PTO. Consequently, it dismissed the lawsuit and, in an apparent attempt to purge any potential inequitable conduct, disclosed the Super System in a continuation application, along with declarations of the inventors identifying various differences between the Super System and the claims. The Federal Circuit affirmed, concluding that the inventors made false statements in the declarations regarding what was actually contained in the Super System, and that the district court properly inferred deceptive intent.

Dippin Dots, Inc. v. Mosey, 476 F.3d 1337 (Fed. Cir. 2007). A patent holder sued numerous defendants for infringing a patented process for making a flash-frozen ice cream. After the district court granted summary judgment of non-infringement, a jury found that the patent was invalid for obviousness and unenforceable due to inequitable conduct. The defendants also prevailed on an antitrust counterclaim ("Walker Process fraud") by alleging that the patent was fraudulently obtained because the inventors failed to disclose to the PTO prior sales that rendered the patent obvious. Although the Federal Circuit agreed that the withheld sales were material to patentability, it concluded that the district court was permitted to balance that against relatively weak evidence of deceptive intent, thus upholding the inequitable conduct ruling. However, as to the Walker Process antitrust counterclaim, the Federal Circuit held that the defendants did not establish the high degree of deceptive intent required under that doctrine. The mere failure to cite prior art to the PTO, without evidence of intent, could not suffice to support an antitrust counterclaim.

7. WAIVER OF PRIVILEGE -- ELIMINATION OF "DUTY OF CARE"

In re Seagate Technology, LLC, 497 F.3d 1360 (Fed. Cir. 2007) (en banc). In this groundbreaking decision, the Federal Circuit jettisoned more than 20 years of precedent, holding that one who becomes aware of another's patent rights no longer has any "affirmative duty of due care" to investigate whether the patent is infringed. "Accordingly, we overrule the standard set out in *Underwater Devices* and hold that proof of willful infringement permitting enhanced damages requires at least a showing of objective recklessness. Because we abandon the affirmative duty of due care, we also reemphasize that there is no affirmative obligation to obtain opinion of counsel. . . . to establish willful infringement, a patentee must show by clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent." The court also held that if an opinion is obtained, leading to waiver of the attorney-

client privilege to the extent the opinion is offered to rebut a charge of willful infringement, the waiver does not extend to trial counsel: "as a general proposition, relying on opinion counsel's work product does not waive work product immunity with respect to trial counsel." In this case, Seagate obtained opinions from an outside patent attorney, who concluded that the patents were invalid and not infringed. In litigation, Seagate relied on those opinions as part of its defense against willful patent infringement, and waived its privilege as to the opinions. The district court, however, ruled that Seagate had to also turn over any communications and work product from its trial counsel. The Federal Circuit granted Seagate's petition for a writ of mandamus and ordered the district court to reverse its ruling. The higher burden imposed on patent owners to establish willful infringement will make it much more difficult for patent owners to collect attorneys' fees and trebled damages in patent cases.

8. RIGHT OF LICENSEE TO CHALLENGE VALIDITY OF PATENT

MedImmune, Inc. v. Genentech, Inc., 127 S.Ct. 764 (2007). The U.S. Supreme Court held that a patent licensee was not required to terminate or breach its license agreement before filing a declaratory judgment suit to declare the patent invalid and not infringed. MedImmune, which manufactured a drug used to prevent respiratory tract disease in infants, signed a patent license agreement with Genentech. After taking the license, MedImmune determined that its activities were not covered by the patent. However, rather than terminate the license, it paid royalties "under protest" and sued Genentech for a declaratory judgment that it did not owe royalties under the license. The Federal Circuit ruled that the existence of a license precluded federal court jurisdiction, but the Supreme Court reversed, stating that "petitioner was not required, insofar as Article III is concerned, to break or terminate its 1997 license agreement before seeking a declaratory judgment in federal court that the underlying patent is invalid, unenforceable, or not infringed."

9. DECLARATORY JUDGMENT JURISDICTION FOR PATENTS

SanDisk Corp. v. STMicroelectronics, Inc., 480 F.3d 1372 (Fed. Cir. 2007). Following the U.S. Supreme Court's decision in MedImmune (see above), the Federal Circuit concluded that SanDisk was entitled to preemptively sue STMicroelectronics for a declaratory judgment of non-infringement and invalidity of certain patents relating to flash memory storage devices. The patent owner had sent a letter to SanDisk listing 8 patents that it believed "might be of interest" to SanDisk and offering a cross-license for the patents. During one of various follow-on meetings, the patent owner presented claim charts showing how its patents covered various SanDisk products, but stated that it had "absolutely no plan whatsoever to sue SanDisk." Several weeks later, SanDisk sued, asserting a declaratory judgment of non-infringement. The district court granted the patent owner's motion to dismiss for lack of subject matter jurisdiction, concluding that there was no actual controversy at the time of suit. After reviewing its prior test for declaratory judgment jurisdiction (i.e., conduct by patentee must create a reasonable apprehension of suit), the Federal Circuit concluded that the Supreme Court's decision in MedImmune "represents a rejection of our reasonable apprehension of suit test." While noting that declaratory judgment jurisdiction would not arise merely on the basis that a party learns of the existence of a patent owned by another without some

affirmative act by the patent owner, the court concluded that "where a patentee asserts rights under a patent based on certain identified ongoing or planned activity of another party, and where that party contends that it has the right to engage in the accused activity without a license, an Article III case or controversy will arise." The Federal Circuit stated in a footnote that "to avoid the risk of a declaratory judgment action, ST could have sought SanDisk's agreement to the terms of a suitable confidentiality agreement," instead of relying on Federal Rule of Evidence 408, which it viewed as relating to evidence of efforts towards attempting to compromise a claim in litigation. Judge Bryson, in a concurring opinion, expressed concern that under the court's standard, virtually any invitation to take a paid license would give rise to a case or controversy if the prospective licensee asserts that its conduct does not fall within the scope of the patent.

Sony Electronics, Inc. v. Guardian Media Techs., Ltd., 497 F.3d 1271 (Fed. Cir. 2007). In this declaratory judgment decision rendered after the Supreme Court's *MedImmune* decision and the Federal Circuit's *SanDisk* decision, the Federal Circuit upheld the right of Sony to sue for a declaratory judgment of non-infringement concerning "V-chip" technology that allows viewers to block TV programs having certain ratings. Guardian, the patent owner, had sent Sony and other electronics manufacturers letters asserting that their TVs and DVD players infringed Guardian's patents. Sony responded that it believed the patents were invalid. More than four years later, Guardian sent a letter to a Sony subsidiary requesting a meeting and proposing that Sony take a license under the patents. Sony again replied that it believed the patents were invalid based on certain prior art, and Guardian replied with its counter-position on validity and suggesting that many Sony products infringed the patents. Sony then filed a declaratory judgment suit alleging that the patents were invalid and not infringed. The district court dismissed the action, finding that there was no "actual controversy" between Guardian and the plaintiffs, given that Guardian had not expressly threatened Sony with infringement. The Federal Circuit vacated and remanded, concluding that Guardian's assertions of infringement (including its detailed analysis of the patents as applied to Sony's products) and the fact that Sony had taken an adverse position denying that the patents were valid gave rise to a controversy. The court rejected Guardian's argument that because it was willing to negotiate a "business resolution" to the dispute, there was no actual controversy between the parties.

10. INDUCEMENT OF PATENT INFRINGEMENT

DSU Medical Corp. v. JMS Co., Ltd., 471 F.3d 1293 (Fed. Cir. 2006) (en banc). The Federal Circuit affirmed a jury's verdict that a defendant did not induce infringement of a patent. In an en banc portion of the opinion, the Federal Circuit held that the level of intent required to show inducement under the statute is that the defendant knew or should have known that his actions would induce actual infringement of the patent, including knowledge of the patent. Mere knowledge of acts alleged to constitute infringement, or mere knowledge of possible infringement by others, is not enough. Relying in part on the U.S. Supreme Court's recent copyright infringement decision in *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913 (2005), the Federal Circuit held that the accused infringer must have knowingly induced infringement, not merely knowingly induced the acts that constitute infringement. Based in part on evidence that the defendant had obtained an

opinion from a U.S. patent attorney that its design did not infringe, and testimony by one of the defendant's owners that the defendant did not intend to infringe, the Federal Circuit upheld the jury's verdict of non-infringement.

11. ESTABLISHING PATENT OWNERSHIP SUFFICIENT TO SUE

Propat Int'l Corp. v. RPost, Inc., 473 F.3d 1187 (Fed. Cir. 2007). A patent owner signed an agreement with Propat giving Propat the right to license the patent and to sue infringers, but conditioned the right to sue on first consulting with the patent owner. The Federal Circuit concluded that Propat did not have "all substantial rights" in the patent sufficient to grant it standing to sue for patent infringement. Among other things, under the agreement the patent owner retained the responsibility of paying maintenance fees for the patent; the right to veto litigation decisions involving the patent; and the right to veto any further transfer of rights in the patent.

12. PATENT LAW PREEMPTION OF LOCAL PRICING LAWS

Biotechnology Indus. Org. v. District of Columbia, 496 F.3d 1362 (Fed. Cir. 2007). The District of Columbia adopted price control legislation that prohibited any patented drug from being sold in the District of Columbia "for an excessive price." Two pharmaceutical industry organizations filed suit to block the law. The district court concluded that the legislation was preempted by the federal patent laws, and the Federal Circuit affirmed. Although nothing in the federal patent laws expressly prohibited states from regulating the prices of patented goods, the Federal Circuit nevertheless concluded that "by penalizing high prices and thus limiting the full exercise of the exclusionary power that derives from a patent, the District has chosen to re-balance the statutory framework of rewards and incentives insofar as it relates to inventive new drugs," and found the law to be contrary to the goals established by Congress in the patent laws.

13. SAFE HARBOR EXCEPTION FOR ACTS RELATED TO FDA APPROVAL

Integra Lifesciences I, Ltd. v. Merck KGaA, 496 F.3d 1334 (Fed. Cir. 2007). On remand from the U.S. Supreme Court, the Federal Circuit concluded that experiments conducted by Merck were "reasonably related" to research leading to eventual FDA approval of new drugs, even if the research was not limited to clinical testing of the drugs but extended to identifying potential new candidates for drugs. In this case, Merck was deemed not to have infringed Integra's patents. The Federal Circuit concluded that "The challenged experiments, all of which were conducted after discovery of the anti-angiogenesis property of the experimental RGD peptide provided by Merck, meet the criteria of being reasonably related to research that, if successful, would be appropriate to include in a submission to the FDA." Judge Rader dissented as to two of the patents, because he believed that they were directed to "research tools" that applied only to laboratory methods without any possibility of submission to the FDA.

14. AUTHORITY OF FEDERAL COURTS TO HEAR MALPRACTICE CLAIMS

Air Measurement Technologies, Inc. v. Akin Gump Straus Hauer & Feld, 504 F.3d 1262 (Fed. Cir. 2007). A company sued the law firm of Akin Gump in state court for alleged malpractice in prosecuting and litigating patents. The law firm removed the case to federal court, and the district court refused to remand, concluding that it had federal question jurisdiction to hear a claim based on patent law. The Federal Circuit affirmed, concluding that a claim for legal malpractice that required the plaintiff to establish that, absent the alleged malpractice, he would have won the patent litigation, raised a substantial question of patent law under federal law and the case was therefore properly brought in federal, not state, court.

Immunocept, LLD v. Fulbright & Jaworski, L.L.P., 504 F.3d 1281 (Fed. Cir. 2007). In a companion case decided the same day as the Akin Gump case above, the Federal Circuit concluded that an allegation that a patent attorney mistakenly used the transition phrase “consisting of” in a claim instead of “comprising” constituted a claim that arose under federal patent law, thus confirming jurisdiction in the Federal Circuit. The Federal Circuit then concluded that the claim for malpractice was barred by the state’s statute of limitations.

15. PATENT EXHAUSTION

Quanta Computer, Inc. v. LG Elec., Inc., No. 06-937 (U.S. Supreme Court). In this closely-watched case, the U.S. Supreme Court will decide the extent to which patent owners may condition the sale of their patented articles in a manner that restricts downstream users of patented devices. In this case, Quanta Computer argues that when LG Electronics licensed microprocessors to Intel, it exhausted its patent rights. LG argued that its agreement with Intel was a conditional, not unconditional, sale of the patented products. The Federal Circuit agreed with LG, finding that patent owners are entitled to make conditional sales of patented products. The Supreme Court agreed to hear the case. The Federal Circuit’s decision is reported at 453 F.3d 1364 (Fed. Cir. 2006).