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DEVELOPMENTS IN PATENT LAW

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## A. Patentability, Validity, and Procurement of Patents

### 1. Statutory Subject Matter

*Bilski v. Kappos*, 130 S. Ct. 3218 (2010). The U.S. Supreme Court finally rendered its decision on the last day of its term in this important case involving the patentability of business methods. The case originated in the U.S. Patent and Trademark Office (PTO), which rejected Bilski's patent application. The patent claimed a method of reducing consumption risk by engaging in a series of transactions between a commodity provider and market participants in a way that balanced risk. The PTO rejected the patent application on the basis that it was not a "process" as that term is understood in patent law.

The Federal Circuit affirmed the PTO in an en banc decision, concluding that under controlling U.S. Supreme Court precedent, in order to be patentable a process must either be tied to a machine or it must transform something. Because Bilski's claims met neither prong of this "machine-or-transformation" test, it was deemed to be unpatentable. In his dissenting opinion, Judge Mayer would have gone farther, imposing a "technological arts" requirement for patentability. Two other judges filed dissenting opinions.

On June 28, 2010, the Supreme Court affirmed the Federal Circuit's decision, but it did so on different grounds than the Federal Circuit's decision. Although all nine Justices agreed on the outcome, there was a sharp 5-4 split among the Justices regarding whether so-called "business methods" should be eligible for patent protection. A slim majority of the Court said that business methods should be eligible for patent protection as long as they do not constitute an abstract idea or fall within one of the other previously-recognized exceptions to patentability.

Justice Kennedy, writing for a majority of the Supreme Court, rejected the Federal Circuit's reliance on the "machine-or-transformation" test as the sole test of patent eligibility for process patents. According to the Court, the only recognized limitations on patentable subject matter are laws of nature; physical phenomena, and abstract ideas. The Court did, however, state that the "machine-or-transformation" test was "a useful and important clue, an investigative tool, for determining whether some claimed inventions are processes under § 101." This likely provides a safe harbor for patents that can satisfy the "machine-or-transformation" test, even though a patent need not meet that test to be patent eligible. Justice Scalia, however, did not join Kennedy's plurality suggestion that the Federal Circuit could further refine the definition of "abstract idea" to bar certain categories of business methods. While a majority of the Justices did not agree to this suggestion, it is likely

that the Federal Circuit will in future cases need to grapple with the definition of “abstract idea.” The Court also noted that the Federal Circuit was free to develop “other limiting criteria” as long as they were not inconsistent with the patent statute.

The majority tried to harmonize earlier U.S. Supreme Court decisions dealing with patent eligibility. Justice Kennedy wrote that, “the Court resolves this case narrowly on the basis of this Court’s decisions in Benson, Flook, and Diehr, which show that petitioners’ claims are not patentable processes because they are attempts to patent abstract ideas.” In Benson, for example, the Supreme Court held that an algorithm to convert binary-coded decimal numerals into pure binary codes was an unpatentable abstract idea, and that a contrary holding would “wholly pre-empt the mathematical formula and would in practical effect be a patent on the algorithm itself.” In Flook, the Court ruled that a process for monitoring conditions during a catalytic conversion process was unpatentable, noting that the prohibition on patenting abstract ideas “cannot be circumvented by attempting to limit the user of the formula to a particular technological environment” or adding “insignificant post-solution activity.” Finally, in Diehr, the Court held that although an abstract idea cannot be patented, an application of a law of nature or mathematical formula could be eligible for patent protection. The Court concluded that Bilski’s claim to a method of hedging risk was like the unpatentable algorithms at issue in Benson and Flook. Because the broadest claim was to an abstract idea and the narrower claims attempted to add insignificant extra-solution activity, patentability was barred.

Justice Stevens, in his last day on the Court, wrote a concurring opinion that was joined by three other Justices. Taking a historical approach, Stevens argued that so-called “methods of doing business” were not the type of inventions that were traditionally patented in the United States. According to Stevens, “For centuries, it was considered well established that a series of steps for conducting business was not, in itself, patentable.” Stevens argued that the “wiser approach” would have been to hold that “business methods are not patentable.” He criticized the majority opinion because it “never provides a satisfying account of what constitutes an unpatentable abstract idea.”

Justice Kennedy’s majority opinion concluded by stating that, “we by no means foreclose the Federal Circuit’s development of other limiting criteria that further the purposes of the Patent Act and are not inconsistent with its text.” This invitation to the Federal Circuit to further clarify the boundaries of patentable subject matter suggests that perhaps Bilski was not the best test case for the Supreme Court to refine the contours of the law in this area. While many business method patents that can satisfy the “machine-or-transformation” test may survive Bilski’s abstract idea test, undoubtedly others will not. It may take several more years before the Federal Circuit is

able to provide greater clarity in this area. For now, the Supreme Court has loosened the reins a bit on the standards for patent eligibility.

*Research Corp. v. Microsoft Corp.*, 627 F.3d 859 (Fed. Cir. 2010). In its first major case interpreting the U.S. Supreme Court's *Bilski* decision, the Federal Circuit held that claims directed to a process and computer-readable media for performing "halftoning" of gray scale images were not directed to an abstract idea and therefore constituted patent-eligible subject matter. Applying a narrow definition of "abstract idea," the Federal Circuit stated that it "would not presume to define 'abstract' beyond the recognition that this disqualifying characteristic should exhibit itself so manifestly as to override the broad statutory categories of eligible subject matter and the statutory context that directs primary attention on the patentability criteria of the rest of the Patent Act." Significantly, the court pointed to other non-asserted claims reciting "a film printer," a "memory," and "printer and display devices," as well as the patent specification, and noted that "inventions with specific applications or improvements to technologies in the marketplace are not likely to be so abstract that they override the statutory language and framework of the Patent Act."

#### Sampling of Pre- and Post-Bilski District Court Decisions:

*Fuzzysharp Technologies Inc. v. 3D Labs Inc.*, 2009 WL 4899215 (N.D. Cal. Dec. 11, 2009) (**pre-Bilski**). Claims to a method of reducing computations in a 3-D computer graphics system including steps of identifying grid cells, comparing data, and determining 3-D surfaces held invalid for failing to meet the "machine or transformation" test – not tied to any particular machine.

*Association for Molecular Pathology v. U.S. Patent and Trademark Office*, No. 1:09-cv-04515 (S.D.N.Y. April 5, 2010) (**pre-Bilski**). In this declaratory judgment action, a judge in the Southern District of New York invalidated claims from several patents associated with breast cancer genes, concluding that they did not satisfy 35 U.S.C. § 101. Many of the claims relate to isolated human genes. The case is on appeal at the Federal Circuit. One of the issues in the case is whether the plaintiffs had standing to bring the suit.

*Fort Properties, Inc. v. American Master Lease, LLC*, 609 F.Supp.2d 1052 (C.D. Cal. Jan. 22, 2009) (**pre-Bilski**). Claims reciting a series of transactions involving acquiring real estate property, aggregating the property, selling the property to more than one entity, and including a provision in the ownership agreement held not to meet the machine-or-transformation test and thus invalid.

*Cybersource Corp. v. Retail Decisions, Inc.*, 620 F.Supp.2d 1068 (N.D. Cal. March 27, 2009) (**pre-Bilski**). A method for verifying the validity of a credit card transaction including steps of obtaining information about other

transactions; constructing a “map” of credit card numbers; and using the map to determine if the credit card transaction is valid held to be invalid for failing to meet the “machine-or-transformation” test. (Note: also invalidated was a claim to a computer-readable medium programmed with computer instructions that carry out the method on a processor – a so-called “*Beauregard*” claim).

*Graff/Ross Holdings LLP v. Federal Home Loan Mortgage Corp*, No. 07-CV-00796 (D.D.C. Aug. 27, 2010) (magistrate judge’s recommendation) (**post-Bilski**). A magistrate judge recommended that the only two method claims asserted by the plaintiff against Freddie Mac be invalidated under 35 U.S.C. § 101. The methods include various steps of converting input data, providing a computer system, controlling the computer system to compute a system-determined purchase price, and generating a financial analysis output. Relying in part on the PTO’s July 27, 2010 “Interim Guidance” regarding *Bilski*, the magistrate judge concluded that the method claims recited nothing more than an abstract idea on a general-purpose computer. The magistrate judge noted that the recited machine was nothing more than “an object on which the method operates.” The magistrate judge also noted that the claims failed the pre-Bilski “machine or transformation” test.

*Ultramercial, LLC v. HULU, LLC*, 2010 WL 3360098, No CV 09-06918 (C.D. Cal. Aug. 13, 2010) (**post-Bilski**). A district court held that a patent relating to distributing copyrighted products over the Internet was invalid for failure to recite statutory subject matter. The claims generally allow a user to view a copyrighted program after watching a commercial, and include steps of receiving media; selecting an ad; offering media products; restricting access to the media; offering media to customers for free in exchange for watching a selected ad; receiving a request to view the media; and receiving payment from an ad sponsor (among others). The court noted that the claims failed the machine-or-transformation test of *Bilski*, since “the Internet” is not a particular machine, nor does it transform any article. Instead, the court concluded that the methods recited an abstract idea.

*LML Patent Corp. v. JPMorgan Chase & Co.*, No. 08-cv-00448 (E.D. Tex. Sept. 20, 2010) (**post-Bilski**). Patent claims reciting a method of processing payments from a bank checking account, including steps such as “storing” and “verifying,” were not an abstract idea and were thus upheld as patentable subject matter.

*H&R Block Tax Services, Inc. v. Jackson Hewitt Tax Service, Inc.*, No. 08-cv-37 (E.D. Tex. Feb. 2, 2011) (**post-Bilski, magistrate’s recommendation**). Patent claims directed to a system for distributing “spending vehicles” were upheld as patentable subject matter, but claims directed to a system and method for advancing money based on an income tax refund were not.

## 2. Written Description Requirement

*Ariad Pharmaceuticals, Inc. v. Eli Lilly and Co.*, 598 F.3d 1336 (Fed. Cir. 2010) (en banc). The Federal Circuit held that a method claim was invalid because it failed to comply with the written description requirement. In accordance with prevailing case law, the original Federal Circuit panel held that the written description requirement is separate and distinct from the enablement requirement, and merely because one skilled in the art would understand how to make and use the invention did not mean that the claimed invention had been adequately described to meet the written description requirement. On August 21, 2009, the Federal Circuit granted a petition for rehearing in the case, vacating the original decision and directing the parties to brief the question whether 35 U.S.C. § 112, first paragraph, contains a written description requirement separate from an enablement requirement. The en banc court on March 22, 2010 reaffirmed that the written description requirement of the patent statute is separate and distinct from the enablement requirement, such that satisfying one does not automatically satisfy the other.

The decision turned largely on a grammatical parsing of section 112 of the patent statute as well as interpretation of Supreme Court precedent. The court also stated that a claim to a broad genus of materials could fail to adequately describe a sufficient variety of species representative of such a genus. The question is whether the patent specification describes an invention “understandable to [a] skilled artisan and shows that the inventor actually invented the invention claimed.”

## 3. Indefiniteness

*Power-One, Inc. v. Artesyn Technologies, Inc.*, 599 F.3d 1343 (Fed. Cir. 2010). The Federal Circuit rejected an argument that the term “adapted to” in a claim rendered it indefinite. According to the Federal Circuit, “the terms ‘adapted to’ and ‘near’ are not facially vague or subjective. Claims using relative terms such as ‘near’ or ‘adapted to’ are insolubly ambiguous only if they provide no guidance to those skilled in the art as to the scope of that requirement.” The term “adapted to power” means that the regulator is capable of delivering power at the level required by the circuit.

## 4. Inventorship

*Vanderbilt Univ. v. ICOS Corp.*, 601 F.3d 1297 (Fed. Cir. 2010). Vanderbilt sued the owner of two patents for chemical compounds for treating erectile dysfunction (the active ingredient in CIALIS), requesting that three of its professors be named as inventors on the patents. Although there were competing versions of evidence regarding who conceived of the starting compound at issue, Vanderbilt had to prove by “clear and convincing evidence” that its employees should have been named as inventors. The court did clarify, however, that it was not necessary for each co-inventor to

have an independent mental picture of the complete claimed compound in order to qualify as a co-inventor. The correct test is whether a group of co-inventors collaborated and worked together to collectively have a definite and permanent idea of the complete invention.

5. Incorporation by Reference

*Harari v. Hollmer*, 602 F.3d 1348 (Fed. Cir. 2010). In this appeal from the PTO's Board of Patent Appeals and Interferences, the Federal Circuit held that a prior patent application was properly incorporated by reference even though a serial number for that application was not included at the time of filing. According to the Federal Circuit, the question is whether a "reasonable examiner" would have been able to determine the identity of the referenced application, which was filed on the same day. In this case, the disputed application was identified by title, filing date (same day) and inventors.

6. Attempt to Correct Priority Claim in Continuation Application Ineffective

*Encyclopaedia Britannica, Inc. v. Alpine Electronics of America, Inc.*, 609 F.3d 1345 (Fed. Cir. 2010). Britannica sued for infringement of patents relating to a multimedia database search system. The patents formed a chain of continuation applications dating back to 1989. One of the applications in the chain was filed missing its first page and it included no priority claims to earlier applications in the chain. Although Britannica petitioned the PTO to accord it a filing date, the petition was ultimately dismissed and the application became abandoned. Before it was abandoned, Britannica filed another continuation application on that one, including priority claims to the earlier-filed applications. In the later litigation, the district court held that the patents were not entitled to the earlier filing date because of the break in the chain of priority. On appeal, the Federal Circuit agreed. In a final note, the Federal Circuit noted that "we therefore leave for another day whether filing a continuation application on the day the parent issues results in applications that are co-pending as required by the statute."

7. Obviousness (Post-KSR)

*Wyers v. Master Lock Co.*, 616 F.3d 1231 (Fed. Cir. 2010). A jury concluded, and the district court agreed, that it would not have been obvious to arrive at the claimed locking mechanism to secure trailers to vehicles. On appeal, the Federal Circuit concluded that "it is simply a matter of common sense" that a sleeve used in one patent could be combined with a barbell-shaped hitch pin lock to address the known problem of different aperture sizes in standard hitch receivers. As to another patent, according to the Federal Circuit "It is a matter of common sense that a flat external seal used



in the prior art padlocks could be combined with a barbell-shaped hitch pin lock.” Accordingly, the patents at issue were invalid. The Federal Circuit also rejected Wyers’s secondary evidence of nonobviousness.

*Geo. M. Martin Co. v. Alliance Machine Systems Int’l LLC*, 618 F.3d 1294 (Fed. Cir. 2010). The fact that other inventors made similar machines very close in time to the claimed invention (so-called “simultaneous invention”) was “strong evidence” of what constitutes the level of ordinary skill in the art and supported an obviousness determination.

*The Western Union Co. v. Moneygram Payment Systems, Inc.*, 626 F.3d 1361 (Fed. Cir. 2010). The Federal Circuit reversed a jury’s determination that patents relating to a money payment system were not obvious. First, it concluded that “the use of an electronic transaction device where the prior art employed a fax machine [is] an unpatentable improvement at a time when such a transaction was commonplace in the art.” It also concluded that adapting such a device to retrieve information from a database was “simply routine modifications that are part of adapting a new technology to an existing system.” As to another claim, the Federal Circuit stated that “it would have been obvious for a person of ordinary skill in the art to use internet-based protocols in networking the systems used in the [prior art] patent.” It cited a district court decision that had reached a similar conclusion about adapting prior art to use the Internet. The Federal Circuit also held that it would have been “common sense” to use a code generated at one phase of the transaction to look up transaction information in the manner claimed by the asserted patents. Finally, the court dismissed the remaining claims as “only trivial improvements that would have been a matter of common sense to one of ordinary skill in the art” and “no reasonable jury could find any of those claims to have been nonobvious.”

8. Provisional Patent Applications as Prior Art Under 35 U.S.C. § 102(e)

*In re Giacomini*, 612 F.3d 1380 (Fed. Cir. 2010). In this appeal from the U.S. PTO’s Board of Patent Appeals and Interferences, the Federal Circuit held that a patent claiming priority to an earlier provisional patent application constituted prior art as of the date the provisional patent application was filed. In other words, it had patent-defeating effect as of the provisional filing date. The Federal Circuit rejected Giacomini’s attempt to invoke the so-called “Hilmer” doctrine, under which an earlier foreign priority filing date does not have patent-defeating effect in the United States. According to the Federal Circuit, Congress clearly granted U.S. provisional applications patent-defeating effect when it added section 119(e) to the patent statute in 1994.

9. Presumption of Validity of Patents Based on “New” Prior Art

*i4i Ltd Partnership v. Microsoft Corp.*, 598 F.3d 831 (Fed. Cir. 2010), *cert granted*, *Microsoft Corp. v. i4i Ltd. Partnership*, 2010 WL 3392402 (Nov. 29, 2010). The U.S. Supreme Court agreed to hear this case, calling into doubt the “clear and convincing” evidentiary burden imposed by the Federal Circuit on patent validity challenges. In 1983, the newly-formed Federal Circuit announced that the statutory presumption of patent validity could only be overcome by presenting “clear and convincing” evidence that the patent was invalid. In this case, Microsoft argued that such a presumption should not apply where prior art not previously considered by the U.S. PTO was relied upon in challenging the validity of the patent. Microsoft argued that the normal preponderance of the evidence standard should apply. The outcome of this case could affect the strength of hundreds of thousands of issued U.S. patents, making it easier to invalidate them.

10. Filing a “Divisional of a Divisional” Application is Permissible

*Boehringer Ingelheim Int’l GmbH v. Barr Labs, Inc.*, 592 F.3d 1340 (Fed. Cir. 2010). Boehringer filed a first patent application and the PTO issued a restriction requirement, noting that multiple distinct inventions were claimed. After it elected one of the restricted inventions and before the first patent issued, Boehringer filed a divisional (second) application directed to one of the non-elected inventions. Before the second patent issued, but after the first patent had already issued, Boehringer filed a “divisional” (third) application of the second patent application directed to other non-elected inventions present in the first application. In later litigation, Barr Labs alleged that the third “divisional” application was subject to an obviousness-type double patenting invalidity attack over the second-filed application, because the third application was not filed directly as a divisional of the first-filed application but was instead a “divisional-of-a-divisional” patent application that should allegedly not benefit from the safe harbor provision of 35 U.S.C. § 121, which precludes using one divisional application against another. The Federal Circuit agreed with Boehringer, holding that a “divisional-of-a-divisional” application should receive the benefit of the safe-harbor provisions of 35 U.S.C. § 121. Note: the safe harbor provision was upheld even though the third application claimed more than one of the originally-claimed invention groups, a point protested by Judge Gajarsa in his dissent from the Federal Circuit’s denial of rehearing en banc, 603 F.3d 1359.

11. Obviousness-Type Double Patenting

*Boehringer Ingelheim Int’l GmbH v. Barr Labs, Inc.*, 592 F.3d 1340 (Fed. Cir. 2010). Once a patent expires, it is too late to file a terminal disclaimer to cure an obviousness-type double patenting relating to that patent. During

litigation, in response to an allegation that an asserted patent was obvious over one of its earlier expired patents, Boehringer filed a terminal disclaimer in the later patent. The Federal Circuit held that such a terminal disclaimer was ineffective, as it must be filed during the pendency of the earlier patent. The Federal Circuit characterized it as an attempted “retroactive” terminal disclaimer.

12. Ownership of Government-Funded Inventions (Bayh-Dole Act)

*Board of Trustees of Leland Stanford Junior Univ. v. Roche Molecular Systems, Inc.*, 583 F.3d 832 (Fed. Cir. 2009), *cert. granted*, 2010 WL 1180644 (Nov. 1, 2010). Under the Bayh-Dole Act, universities have the right to retain ownership of patents for inventions that were developed using federal money. In this case, one of the named co-inventors was a university research fellow who signed an agreement to assign to the university inventions developed under the federal research program. While visiting another company (Cetus), the co-inventor also signed a visitor’s confidentiality agreement (VCA) whereby he “hereby assigned” to Cetus any inventions that arose “as a consequence” of his work at Cetus. The Federal Circuit concluded that this granted Cetus an ownership interest in the patent, defeating Stanford’s ownership interest. The Supreme Court granted certiorari, presumably to clarify whether such a result was intended under the Bayh-Dole Act, as it would appear to allow a co-inventor to unilaterally divest a university from ownership of a patent that it otherwise would own.

13. Prosecution Laches – Showing of Prejudice Required

*Cancer Research Technology Ltd. v. Barr Labs*, 625 F.3d 724 (Fed. Cir. 2010). A patent applicant filed eleven continuation applications over a period of a decade, most of which were filed without responding on the merits to the examiner’s rejections, before finally obtaining a patent. A district court found the patent unenforceable due to prosecution laches – i.e., unreasonable and unexplained delay in prosecution. The Federal Circuit reversed, concluding that prosecution laches requires a showing of prejudice. Here, there was no evidence that either defendant Barr Labs or anyone else was prejudiced by the delay in issuing the patent.

14. Ability of Patent Applicants to Submit New Evidence in § 145 Actions

*Hyatt v. Kappos*, 625 F.3d 1320 (Fed. Cir. 2010) (en banc). Patent applicants may introduce new evidence for the first time in an action brought under 35 U.S.C. § 145, even if the evidence could have been introduced earlier while

the application was still pending. In this case, the district court refused to permit Hyatt to introduce new evidence (Hyatt's declaration) that could have been submitted to the U.S. PTO while the application was pending. A split panel of the Federal Circuit had originally affirmed the decision, but upon rehearing en banc, the full court agreed to reverse the outcome.

## **B. Interpretation of Patents**

### **1. Claim Construction**

*Pressure Products Medical Supplies, Inc. v. Greatbatch Ltd.*, 599 F.3d 1308 (Fed. Cir. 2010). A district court erred by looking to prior art patents incorporated by reference into a patent application to find corresponding structure for a function recited in a means-plus-function clause. According to the Federal Circuit, "Trial courts cannot look to the prior art, identified by nothing more than its title and citation in a patent, to provide corresponding structure for a means-plus-function limitation." The Federal Circuit remanded to the district court for further findings based on a narrower interpretation that was supported solely by the patent specification.

*American Medical Systems, Inc. v. Biolitec, Inc.*, 618 F.3d 1354 (Fed. Cir. 2010). A claim preamble that recited a "method for *photoselective vaporization* of tissue" was held to be not limited to any "photoselective vaporization" requirement. First, this phrase was not added or emphasized during prosecution by the applicants. Second, this phrase does not provide any antecedent basis for any of the later claim recitations. Finally, the "photoselective" feature was deemed not to be an essential component of the invention, but merely a descriptive name for the invention that was set forth fully in the body of the claim. Judge Dyk dissented, arguing that it was time to clarify the law in this area, and he suggested that every word in a claim preamble should be treated as a limitation.

*Haemonetics Corp. v. Baxter Healthcare Corp.*, 607 F.3d 776 (Fed. Cir. 2010). The Federal Circuit reversed a district court's interpretation of a claim term used in the preamble of the claim. Rejecting the patent owner's argument that such an interpretation "would yield an absurdity," the Federal Circuit noted that the claim may have been drafted improperly, "but it is what the patentee claimed and what the public is entitled to rely on."

### **2. "Joint" or "Divided" Infringement of Method Claims**

*Golden Hour Data Sys., Inc. v. emsCharts, Inc.*, 614 F.3d 1367 (Fed. Cir. 2010). Despite the fact that two defendants formed a "strategic partnership" and collaborated to sell two computer software programs as a single unit, the Federal Circuit upheld the district court's conclusion that there was no "joint infringement" of either the system claims or method claims asserted in the

lawsuit. In affirming JMOL of non-infringement, the Federal Circuit agreed that the evidence was insufficient for the jury to infer that one party exercised control or direction over the other party such that all steps of the process could be attributed to the controlling party, i.e., the “mastermind.”

*Akamai Tech., Inc. v. Limelight Networks, Inc.*, 629 F.3d 1311 (Fed. Cir. 2010). The Federal Circuit held that a method claim cannot be infringed “jointly” by a company and its customers unless there is an agency relationship between them. It was undisputed that Limelight did not perform every step of the claimed method, but Akamai argued that under the authority of *BMC Resources, Inc. v. Paymentech*, 498 F.3d 133 (Fed. Cir. 2007), joint liability for infringement could be found when one party “controls or directs the activities of another party.” In this case, Akamai argued that Limelight’s customers acted under its direction and control. A jury found joint infringement, but the district court granted Limelight’s JMOL motion of non-infringement. The Federal Circuit affirmed, concluding that mere control or direction of its customers were not enough to establish joint liability. Instead, an agency relationship is required, and “both parties must consent that the agent is acting on the principal’s behalf and subject to the principal’s control.” The court also stated that joint infringement could be found “when a party is contractually obligated to the accused infringer to perform a method step.” “This court therefore holds as a matter of Federal Circuit law that there can only be joint infringement when there is an agency relationship between the parties who perform the method steps or when one party is contractually obligated to the other to perform the steps. Neither is present here.”

*Centillion Data Sys., LLC v. Qwest Comm. Int’l*, \_\_\_ F.3d \_\_\_, 2011 WL 167036 (Fed. Cir. Jan. 20, 2011). A user of a system who triggers the operation of that system can be found liable as an infringer for “using” the system, even if some parts of the system are operated by a different entity. The claims were directed to a system, not a method. Customers of the system put the system as a whole into service, thus constituting infringing “use” of the system, even though Qwest handled some of the processing steps in the system.

*SiRF Technology, Inc. v. Int’l Trade Comm’n*, 601 F.3d 1319 (Fed. Cir. 2010). The Federal Circuit held that method claims involving steps of “transmitting” and “processing” satellite signals were performed entirely by SiRF, and did not require actions by the end users of the accused GPS device, thus avoiding a “joint infringement” problem of the type encountered in a previous case, *Muniauction, Inc. v. Thomson Corp.*, 532 F.3d 1318 (Fed. Cir. 2008). Because SiRF provided devices programmed to carry out the claimed method steps, SiRF was held liable for direct infringement. According to the Federal Circuit, “SiRF performs the step of communicating/transmitting the files to the end user’s devices because SiRF initiates the process of

transmitting and communicating, and the files are actually transmitted to the end users.” It reached a similar conclusion regarding the step of “processing the satellite signals” at the devices – “SiRF infringes as its devices and software dictate the performance of the ‘processing’ and ‘representing’ steps.”

### 3. Employee Liability for Indirect Infringement

*Wordtech Systems, Inc. v. Integrated Networks Solutions, Inc.*, 609 F.3d 1308 (Fed. Cir. 2010). Wordtech sued Integrated Networks Solutions and two of its employees for patent infringement. A jury found the company and the two employees liable for direct infringement, contributory infringement, and induced infringement. The two employees admitted that they worked for the defendant as the only full-time employees but denied that they were officers of the company. As to direct infringement, the Federal Circuit agreed that although the corporate veil normally shields company officers, the corporate veil can be pierced in certain circumstances. The Federal Circuit remanded to provide jury instructions on possibly piercing the corporate veil. As to inducement and contributory infringement, the Federal Circuit held that corporate officers who actively assist with their corporation’s infringement can be personally liable, regardless of whether a corporate veil would normally shield them from liability. Nevertheless, because of faulty jury instructions on inducement and contributory infringement, the Federal Circuit remanded for a new trial on those issues too.

### 4. Induced Infringement

*SEB S.A. v. Montgomery Ward & Co.*, 594 F.3d 1360 (Fed. Cir. 2010), *cert granted*, *Global-Tech Appliances, Inc. v. SEB S.A.*, 2010 WL 2629783 (Oct. 12, 2010). The Federal Circuit affirmed a district court’s ruling that a Hong Kong company actively induced its customers to infringe a patent covering a deep fat fryer. Despite the fact that there was no evidence that the company had actual knowledge of the patent, the court held that “deliberate indifference” to the existence of the patent was sufficient to establish knowledge for purposes of inducement. The evidence showed that the company had engaged an attorney to conduct a right-to-use study but did not tell that attorney that it had copied the patentee’s product. The company had argued that there was no evidence that the copied product was marked with a patent number, but the Federal Circuit rejected the argument.

### 5. Infringement – Offer to Sell Arguably Made Overseas

*Transocean Offshore Deepwater Drilling, Inc. v. Maersk Contractors USA, Inc.*, 617 F.3d 1296 (Fed. Cir. 2010). As stated by the Federal Circuit, “This case presents the question whether an offer which is made in Norway by a U.S. company to a U.S. company to sell a product within the U.S., for

delivery and use within the U.S. constitutes an offer to sell within the U.S. under § 271(a). We conclude that it does.” Despite the presumption against giving extraterritorial effect to U.S. patent laws, the Federal Circuit concluded that the location of the contemplated sale controls whether there is an offer to sell within the United States. The court also held that a contract between two U.S. companies for sale of the patented invention with delivery and performance in the U.S. constitutes a sale under § 271(a).

#### 6. Infringement – Use of Industry Standards to Prove It

*Fujitsu Ltd. v. Netgear Inc.*, 620 F.3d 1321 (Fed. Cir. 2010). The Federal Circuit held that a district court “may rely on an industry standard in analyzing infringement. If a district court construes the claims and finds that the reach of the claims includes any device that practices a standard, then this can be sufficient for a finding of infringement.” It affirmed the non-infringement ruling as to most accused products because the relevant claimed feature was optional – i.e., it was not required by the standard – and thus there was no evidence that the feature was actually used by customers. As to four accused products, however, the Federal Circuit affirmed the district court’s infringement determination based on evidence showing that customers actually activated the relevant feature. The decision may make it easier for patent owners whose patents cover an industry standard to establish infringement by devices that claim to comply with such a standard, because the patent owners would not need to engage in detailed fact-finding as to every different accused product. The industry standards in this case relate to wireless communications. In another point helpful to patent attorneys who draft patent applications, the Federal Circuit noted that had “the claim language only required the *capacity* to perform a particular claim element,” infringement might have been shown.

### C. Enforcement of Patents

#### 1. Venue

*In re Acer America Corp.*, 626 F.3d 1252 (Dec. 2010). The Federal Circuit granted another petition for a writ of mandamus, ordering the Eastern District of Texas to transfer a patent case brought against twelve defendants to the Northern District of California, where five of the defendants had headquarters. The district court had denied the transfer largely on the basis that one of the defendants, Dell, Inc., had its headquarters in Texas. Most of the other evidence and witnesses resided in or near California, not Texas. The Federal Circuit noted that “it is unreasonable to suggest that Dell’s evidence alone could outweigh the convenience of having the evidence from multiple defendants located within the transferee venue of trial.”

*In re Microsoft*, \_\_\_F.3d \_\_\_, 2011 WL 30771 (Fed. Cir. Jan. 5, 2011)

(reissued as precedential). The Federal Circuit ordered that this patent case brought against Microsoft be transferred from the Eastern District of Texas to the Western District of Washington, where Microsoft is headquartered. Most of the witnesses and evidence resided in Washington, not in Texas. The Federal Circuit also rejected the plaintiff's assertion that it had connections to Texas, noting that it had incorporated in Texas a mere 16 days prior to filing suit.

## 2. Damages

*ResQNet.com, Inc. v. Lansa, Inc.*, 594 F.3d 860 (Fed. Cir. 2010). The Federal Circuit vacated a reasonable royalty damages award because the patent owner's damages expert relied in part on royalty rates from earlier licenses that had no relation to the claimed invention. Instead, those licenses related to furnishing software and services such as training, maintenance, and marketing. The royalty rates in those licenses improperly drove up the royalty rate for the patented invention.

*Uniloc USA, Inc. v. Microsoft Corp.*, 2011 WL 9738 (Fed. Cir. Jan. 4, 2011). In this groundbreaking opinion, the Federal Circuit rejected outright the so-called "25% rule of thumb" starting point for determining a reasonable royalty for patent infringement. A jury had awarded damages of \$388 million to Uniloc, based in part on a starting assumption that a willing licensee would pay 25% of his expected profits for using the patented invention. According to the Federal Circuit, "the 25 percent rule of thumb is a fundamentally flawed tool for determining a baseline royalty rate in a hypothetical negotiation. Evidence relying on the 25 percent rule is thus inadmissible under Daubert and the Federal Rules of Evidence, because it fails to tie a reasonable royalty based to the facts of the case at issue."

## 3. Inequitable Conduct

*Leviton Mfg. Co. v. Universal Security Instruments, Inc.*, 606 F.3d 1353 (Fed. Cir. 2010). Leviton filed two patent applications six months apart naming completely different inventors. Each application included a declaration by the inventors that they had invented the claimed subject matter. Neither patent application claimed priority to the other, but the two applications had claims that were virtually identical to each other. Leviton did not disclose the existence of the first application to the PTO in the later-filed application, which eventually issued as a patent. Leviton sued Universal for patent infringement. After the attorneys prosecuting the applications at first refused to testify during depositions, Leviton voluntarily dismissed its patent infringement suit, but Universal moved for attorneys fees. The district court found the patents unenforceable for inequitable conduct, and that Leviton engaged in vexatious litigation. On appeal, the Federal Circuit agreed that Leviton's failure to disclose the first patent application to the PTO was



material, given that two completely different sets of inventors signed declarations stating that they invented the claimed subject matter, and because such information might have led to a double-patenting rejection. As to intent to deceive, however, the Federal Circuit concluded that genuine issues of material fact precluded summary judgment of inequitable conduct. According to the Federal Circuit, “We have not previously affirmed a grant of summary judgment based on a failure to disclose a commonly owned application or related litigation, and we decline to do so on the facts of this case.” Because the district court’s inference of intent to deceive was not the “only reasonable one based on the record,” the case was remanded to the district court for further fact-finding. The Federal Circuit pointed to one of the prosecuting attorneys’ statements that he didn’t disclose the earlier application because he didn’t believe it was prior art. Judge Prost filed a dissenting opinion.

*Ring Plus, Inc. v. Cingular Wireless Corp.*, 614 F.3d 1354 (Fed. Cir. 2010). A district court held Ring Plus’s patent unenforceable for inequitable conduct because the Background of the Invention described two prior art systems as being only hardware-based, but not software-based, and the applicants intended to deceive the PTO with this misrepresentation. The Federal Circuit vacated this finding. Although it agreed that the description in the background section might be inaccurate, it found no evidence of intent to deceive the PTO, particularly since the patent attorney provided un rebutted testimony that he believed that the prior systems were not software-based.

*Avid Identification Sys., Inc. v. The Crystal Import Corp.*, 603 F.3d 967 (Fed. Cir. 2010). Avid sued Crystal Import for infringing a patent relating to a radio-frequency identification system. The district court held that although the patent was valid and infringed, it was nevertheless unenforceable due to inequitable conduct. More than one year before the patent was filed, Avid’s president and founder, who was not a named inventor on the patent, demonstrated an early version of the technology at a trade show. This early demonstration was not disclosed to the U.S. PTO. The Federal Circuit affirmed the unenforceability conclusions. As to materiality, the Federal Circuit held that even though the early demonstration did not invalidate the claims of the patent, a “reasonable examiner” would find the demonstration to be material to patentability because it was the closest potential prior art. As to intent, despite the fact that Avid’s founder was not a named inventor and there was no evidence that he directed the prosecution of the patent application, he nevertheless owed a duty of candor to the PTO to disclose the early demonstration. According to the Federal Circuit, it was reasonable to infer that he was “substantively involved” in the patent application process given his position as president; the fact that he was responsible for all research and development activities; the fact that he signed the “small entity” declaration on behalf of the company; and evidence that he received at least one communication from a European patent attorney relating to a European

counterpart of the U.S. application. Judge Linn dissented in part, concluding that the duty of candor should not extend to Avid's president. Note: On July 16, 2010, over the dissent of Judge Newman, the Federal Circuit refused to stay acting on Avid's petition for rehearing pending the en banc rehearing in the *Therasense* case (discussed below).

*Therasense, Inc. v. Becton, Dickinson & Co.*, 593 F.3d 1289 (Fed. Cir. 2010), *vacated and rehearing en banc granted*, 2010 WL 1655391 (April 26, 2010) (unpublished). A panel of the Federal Circuit affirmed a district court's determination that Therasense committed inequitable conduct when it failed to disclose to the U.S. PTO arguments that were made to the European Patent Office in a related case that allegedly contradicted representations made to the U.S. PTO. Judge Linn filed a dissenting opinion, arguing that the representations made to the different patent offices were susceptible to multiple interpretations, and that there was no evidence of specific intent to deceive the PTO. On April 26, 2010, the Federal Circuit granted rehearing en banc in this case, directing the parties to brief the following issues:

1. Should the materiality-intent-balancing framework for inequitable conduct be modified or replaced?
2. If so, how? Should the standard be tied directly to fraud or unclean hands?
3. What is the proper standard for materiality? What role should the PTO's rules play in defining materiality?
4. Under what circumstances is it proper to infer intent from materiality?
5. Should the balancing inquiry be abandoned?
6. Should the standards for materiality and intent in other contexts shed light on this case?

It is expected that this case will generate lots of interest and may lead to a higher burden of establishing inequitable conduct in patent cases.

#### 4. Personal Jurisdiction

*In re BNY Convergenx Group, LLC*, 2010 WL 5081014 (Fed. Cir. Dec. 8, 2010) (non-precedential). Litigants may not use a petition for a writ of mandamus to vacate an order denying a motion to dismiss for lack of personal jurisdiction, even if it means that a litigant must take a case through trial to appeal the ruling. In this case, the Eastern District of Texas refused to dismiss a suit brought against BNY on the basis that the court lacked personal jurisdiction over BNY. (Contrast this result with the increasing frequency with which writs of mandamus have been successfully obtained to order transfer of cases to other courts).

#### 5. Use of Contempt Hearings for Redesigned Devices

*Tivo Inc. v. EchoStar Corp.*, 2010 WL 1948577 (Fed. Cir. May 14, 2010).

The Federal Circuit agreed to rehear this case en banc to consider the extent to which it is proper to use a contempt hearing to address infringement by redesigned devices accused of infringement. The court requested briefing on the following issues:

(a) Under what circumstances is it proper for a court to determine infringement of a newly accused device through contempt proceedings rather than a new infringement suit? What burden of proof is required to establish that a contempt proceeding is proper?

(b) How should the various tests for contempt proceeding (“more than colorable differences” or “substantial open issues of infringement”) be applied?

(c) Where a contempt proceeding is proper, what burden of proof is on the patentee to show that the newly-accused device infringes, and what weight should be given to the infringer’s efforts to design around the patent?

(d) Is it proper for a district court to hold an enjoined party in contempt where there is a substantial question as to whether the injunction is ambiguous?

## 6. Patent Misuse as a Defense to Infringement

*Princo Corp. v. International Trade Commission*, 616 F.3d 1318 (Fed. Cir. 2010) (en banc). U.S Philips Corp., which owns certain patents covering compact discs, brought an action in the ITC to block imports of Princo’s CDs. The ITC found that Princo’s CDs infringed six Philips patents and rejected Princo’s patent misuse defense. On appeal, Princo argued that Philips misused its patents by offering only a “package” license for patents including those not necessary (not “essential”) to manufacture CDs that complied with an industry standard. A panel of the Federal Circuit initially concluded that “perfect certainty is not required to avoid a charge of misuse through unlawful tying” – it is not patent misuse if an objective manufacturer, faced with the patent, might reasonably believe that a license is necessary to manufacture CDs in compliance with the industry standard. The Federal Circuit panel remanded, however, for further proceedings as to Princo’s argument that Philips and Sony agreed to prevent licensing the patent to develop CDs that might compete with the industry standard. Before the case was remanded, the full Federal Circuit granted a petition for rehearing en banc. The en banc Federal Circuit concluded that Philips did not misuse its patents covering an industry-wide standard by agreeing with Sony that Sony would not license a patent for a different implementation of the technology. The court posed the ultimate question as: When a patentee offers to license a patent, does the patentee misuse that patent by inducing a third party not to license its separate competitive technology? It answered

the question in the negative. Two judges filed a vigorous dissenting opinion.

7. PTO Calculation of Patent Term Adjustment (PTA)

*Wyeth v. Kappos*, 591 F.3d 1364 (Fed. Cir. 2010). The Federal Circuit held that the PTO has been improperly calculating patent term adjustments when different types of PTO delays are involved. The patent statute provides for patent term extensions if the PTO does not provide prompt responses, such as a first office action within 14 months of the filing date (section “A” delays); if the PTO fails to issue a patent within 3 years of filing (section “B” delays); and if certain other activities occur (section “C” delays). The statute also contains a provision that prevents double-counting delays during “overlap” between the periods of delay. The PTO had been calculating the PTA based on the longer of section A delays and section B delays. The Federal Circuit affirmed the district court’s determination that the PTO calculation short-changed applicants, and held that the correct calculation should be the sum of the section A and B delays, minus overlap occurring after the 3-year mark. This was based on its conclusion that any section B delay could not start until 3 years after the filing date, and hence no overlap was possible until at least 3 years after filing. The PTO has announced that it will begin calculating PTA using the new approach.

8. Equitable Estoppel

*Aspex Eyewear Inc. v. Clariti Eyewear, Inc.*, 605 F.3d 1305 (Fed. Cir. 2010). Aspex Eyewear sent a letter to Clariti Eyewear identifying patents for eyeglass frames for magnetically attachable lenses and asserting that products sold by Clariti appeared to infringe. Clariti responded that it did not believe that its products infringed any valid claims of the patents. Nothing else transpired for more than 3 years, when Aspex again wrote to Clariti asserting infringement. After Aspex sued Clariti, the district court granted Clariti’s motion to dismiss based on equitable estoppel. The Federal Circuit affirmed, concluding that the elements of equitable estoppel had been met, including a misleading period of silence.

9. Patent Marking

*Pequignot v. Solo Cup Co.*, 608 F.3d 1356 (Fed. Cir. 2010). In June 2000, Solo Cup became aware of the fact that some of the patents included in its molds that produced cups were expired. Solo developed a policy under which, when molds needed to be replaced due to wear or damage, the new molds would not include any expired patent numbers, but until such replacement, the existing molds could continue to be used. Pequignot, a patent attorney, sued Solo Cup for marking expired patent numbers on its paper cups. The district court granted summary judgment to Solo Cup, finding no intent to deceive by Solo.

The Federal Circuit first held that marking expired patent numbers on an article meets the definition of “unpatented” in the federal mismarking statute – i.e., they are falsely marked. As to deceptive intent, the Federal Circuit stated that “The bar for proving deceptive intent is particularly high, given that the false marking statute is a criminal one, despite being punishable only with a civil fine.” The mere knowledge that a marking is false is insufficient to prove intent if the marker can prove that it did not consciously desire the result that the public be deceived. In this case, Solo provided credible evidence that its purpose was not to deceive the public. Among other things, Solo relied in part on opinion of counsel and took the good-faith steps of removing expired patent numbers as its molds wore out. (Note: as to a separate charge that Solo had improperly marked “This product may be covered by one or more U.S. patents,” the Federal Circuit found it “highly questionable” whether such language could ever be found to deceive the public.)

*Stauffer v. Brooks Brothers, Inc.*, 619 F.3d 1321 (Fed. Cir. 2010). Stauffer is a patent attorney who purchased bow ties having expired patent numbers printed on them (expired in 1954 and 1955). He sued Brooks Brothers under the *qui tam* patent mismarking statute, which provides a penalty of up to \$500 for every mismarked article. The district court dismissed the suit for lack of standing on the basis that Stauffer had not suffered any injury traceable to the mismarked patent numbers. On appeal, the Federal Circuit reversed, concluding that Stauffer had standing to act on behalf of the United States, given that half of the damages award goes to the United States, and that the injury was inflicted on the United States. The court also noted that the statute gives the right for “any person” to sue on behalf of the United States.

#### 10. Ownership of Patents

*SiRF Technology, Inc. v. Int’l Trade Comm’n*, 601 F.3d 1319 (Fed. Cir. 2010). Recording a patent assignment at the U.S. PTO creates a rebuttable presumption that the underlying assignment validly conveys rights to the named assignee. In this case, an accused infringer argued that one of the co-inventors had automatically assigned his rights in the patent to his prior employer under an employment agreement stating that rights for inventions “related to or useful in the business of the employer” were conveyed to the prior employer. The Federal Circuit disagreed, concluding that the presumption created by the recorded assignment was not rebutted by the challenger.

#### 11. Stipulation of Non-Infringement Does Not Waive Appeal Right

*Taylor Brands, LLC v. GB II Corp.*, 627 F.3d 874 (Fed. Cir. 2010) (order

denying motion on appeal). A district court granted an accused infringer's motion for summary judgment of non-infringement. The patent owner agreed to a stipulated final judgment, but on appeal the accused infringer moved to dismiss the appeal, arguing that because the patent owner stipulated to a final judgment of non-infringement without expressly reserving its right to appeal, it had waived its right to appeal the judgment. The Federal Circuit disagreed, noting that the patent owner only stipulated to the "form" of the judgment for purposes of appealing the adverse judgment, and it did not stipulate to the "substance" of the judgment. In a previous paper, the patent owner had made clear that it intended to appeal the district court's decision.

## 12. Patent Exhaustion

*Omega S.A. v. Costco Wholesale Corp.*, 541 F.3d 982 (9th Cir. 2008), *cert granted*, 130 S.Ct. 2089 (April 19, 2010). Although this is a copyright case from the 9th Circuit, not a patent case, many patent attorneys believed that the outcome of this case would also be determinative for patent exhaustion and might lead to overruling *Fujifilm Corp. v. Benun*, 605 F.3d 1366 (Fed. Cir. 2010). In *Fujifilm*, the Federal Circuit held that the authorized sale of a patented product outside the United States did not lead to exhaustion of patent rights if such a product were imported into the United States. In *Costco*, the 9th Circuit held that the authorized sale overseas of watches having a copyrighted design did not "exhaust" the copyright owner's claim to assert infringement when such watches were imported into the United States. The Supreme Court granted certiorari. On December 13, 2010, by a 4-4 tie, the Supreme Court affirmed the decision, meaning it has no precedential value outside the 9th Circuit.