

PATENT DEVELOPMENTS FOR IT PRACTITIONERS

(Sept. 2010 to Sept. 2011)

PRESENTED AT:

**THE VIRGINIA INFORMATION TECHNOLOGY
LEGAL INSTITUTE**

**FAIRFAX, VA
SEPTEMBER 23, 2011**

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I. PATENT REFORM LEGISLATION

The Leahy-Smith America Invents Act (H.R. 1249) passed the House of Representatives and, on September 8, 2011, was also passed by the Senate. President Obama signed the bill into law on September 16, 2011. The new legislation represents the most sweeping changes to U.S. patent law in more than 50 years. Although it has been heavily promoted as a job-creating bill, the major elements of the bill move the United States closer to the rest of the world in terms of patent laws. Possibly the most sweeping change involves elimination of the first-to-invent right of patentability and instead converts the U.S. into a first-to-file country. The following summarize the major elements of the law. While many of the changes are not effective until 18 months after enactment, some of the changes take effect immediately upon enactment.

Section 3: First Inventor to File: (effective 18 months after enactment). Replaces the current “first-to-invent” scheme with a “first-inventor-to-file” scheme. These provisions, which apply to any application or patent having a claim with an effective filing date 18 months after enactment, or claiming priority to such an application or patent, do the following:

(a) Eliminates the Hilmer doctrine. Foreign patents and foreign published patent applications can now be relied on as prior art in the U.S. as of their foreign filing dates. One difference from foreign jurisdictions: foreign jurisdictions only allow this for novelty purposes, not obviousness purposes.

(b) Broadens the definition of prior art (in addition to patenting, publication, public use and on-sale activity) to include anything “otherwise available to the public” before the effective filing date of a claimed invention. The on-sale bar and public use bar would no longer be limited to activities occurring in the U.S. – i.e., a sale or public use occurring in a foreign country prior to filing would now bar a U.S. patent.

(c) Provides a limited grace period for disclosures made by an inventor 1 year or less before effective filing date, including disclosures that were derived from the inventor.

(d) It is unclear whether public use or on-sale activity also constitutes a “disclosure” for purposes of benefiting from one-year grace period. If they are not considered a “disclosure” under the law, then there is no grace period for on-sale and public use activities, which is a major change from existing law. This may require legislative change or else court decision to interpret this ambiguity.

(e) Eliminates old 102(c) (abandonment of invention), 102(d) (first patented in foreign country), 102(f) (derivation of invention from another), 102(g) (interferences). The requirement of current section 102(f) that the inventor actually invented the claimed subject matter is incorporated into a new definition of “inventor” in section 100 (definitions).

(f) Repeals statutory invention registration, 35 USC 157. Nobody uses this obscure

procedure anyway, so it has no real impact.

(g) Repeals interference proceedings and replaces them with more limited “derivation proceedings.” Interference proceedings and the right to antedate prior art by establishing an earlier date of invention are abolished. Instead of interference proceedings, a new “derivation proceeding” is provided for at the newly-renamed Patent Trial and Appeal Board (previously the Board of Patent Appeals and Interferences). Under 35 USC § 135, an applicant may file a petition alleging that another inventor derived a claimed invention from the applicant. A patent owner may also file a lawsuit against another patent owner alleging derivation.

(h) Disqualifies as prior art subject matter disclosed in a previously-filed patent or patent application if the previously-disclosed subject matter and the later-claimed invention were owned by the same person or subject to an obligation of assignment to the same person. (Note: under existing law (35 U.S.C. § 103(c)), such prior art could be disqualified for obviousness purposes, but not for avoiding anticipation rejections). Also disqualifies as prior art a prior-filed but later-published patent application if the earlier-filed application was by a joint inventor.

Section 4: Inventor’s Oath or Declaration (effective 1 year after enactment). This provision allows companies or other applicants to file patent applications on behalf of inventors if they can show facts providing entitlement to invention rights (e.g., an assignment or agreement to assign the invention). Patents would be issued to the non-inventors in such circumstances. This provision simplifies issues associated with non-cooperative inventors. The provision also harmonizes U.S. patent laws with those in other countries.

Section 5: Expanded Prior User Right Defense to Infringement (effective for any patent that issues after the date of enactment). This provision expands the current patent infringement defense found in 35 USC § 273 to cover commercial uses of any patented invention within the United States – it is no longer restricted to so-called “business method” patents. Such prior use must have started at least one year prior to the filing date of the patent or one year before the invention was disclosed to the public. There is a major loophole for patents owned by universities – they are not subject to this defense. The expanded defense may lead more companies to rely on trade secret protection for their technology, since they can now rely on this expanded patent infringement defense for secretly-used technology.

Section 6: Post-Grant Review (effective 1 year after enactment). This provision replaces the existing inter partes reexamination proceeding with a modified “inter partes review” proceeding, and also institutes a new “post-grant review” procedure similar to opposition proceedings in foreign countries.

A. Ex parte reexamination – stays the same (no changes).

B. Replacement of Inter Partes Reexamination With Inter Partes Review (most provisions effective 1 year after enactment).

(1) The existing inter partes reexamination proceeding is renamed “inter partes review.” Such a proceeding must now be brought after 9 months from issue date of the patent (or after any post-grant review on the patent has been terminated), and may only raise novelty and obviousness questions on the basis of patents and printed publications. The proceeding may be brought against any issued or reissued patent, regardless of its issue date (unlike current inter partes reexamination). The proceeding will be conducted before the newly-named Patent Trial and Appeal Board. The PTO may limit the number of such proceedings during the first 4 years. The proceeding must be completed within 1 year of the PTO’s ordering the review (with 6-month extension if good cause shown).

(2) The petitioner must identify the real party in interest (same as existing inter partes reexamination).

(3) Instead of a “substantial new question of patentability,” the standard for granting the review is a higher burden of “reasonable likelihood that the petitioner would prevail.” **Note:** This change is effective for any inter partes reexamination request filed after the date of enactment, and for any inter partes review petitions filed after enactment.

(4) The PTO must determine whether to initiate a proceeding within 3 months after receiving the patent owner’s response to the petition (or after such response period expires).

(5) No inter partes review may be filed if the petitioner had filed a civil action challenging the validity of the patent. But merely raising a counterclaim of invalidity does not bar such an inter partes review. Also no inter partes review may be filed after more than 1 year after the petitioner has been served with a complaint for patent infringement.

(6) There is an estoppel provision – any ground of invalidity that was raised or could have been raised by a petitioner in the inter partes review may not be raised in a lawsuit or ITC proceeding by that petitioner.

(7) The PTO may permit certain types of discovery to be conducted, including depositions. Also the PTO must provide each party with the right to an oral hearing.

(8) Intervening rights are provided for any amended or new claim (continues existing practice).

(9) Unlike today’s ex parte and inter partes reexamination practice, which can be appealed to the Board of Patent Appeals and Interferences, the decision of the Patent Trial and Appeal Board can only be appealed directly to the U.S. Court of Appeals for the Federal Circuit. This should substantially expedite final resolution of claims reviewed under the inter partes review process.

C. New Post-Grant Review Procedure (effective 1 year after enactment). A new post-grant review procedure similar to opposition procedures in foreign countries is established, with the following provisions:

(1) A petition may be filed within 9 months after issuance of the patent. The validity may be challenged on any patentability ground with the exception of best mode challenges. The proceeding is handled by the new Patent Trial and Appeal Board.

(2) The remaining provisions are similar or identical to the new inter partes review provisions above, including the requirement that the Patent Trial and Appeal Board conclude proceedings within 1 year (with 6-month extension if good cause shown).

Section 7: Patent Trial and Appeal Board (effective 1 year after enactment).

Establishes this Board, which replaces the present Board of Patent Appeals and Interferences, to handle the following proceedings:

(a) Appeals from examiner rejections;

(b) Derivation proceedings;

(c) Post-Grant reviews; and

(d) Inter partes reviews.

All proceedings are held before a three-member panel of the Board. Furthermore, the result of any derivation proceeding, post-grant review, or inter partes review may be appealed directly only to the U.S. Court of Appeals for the Federal Circuit, thus eliminating a separate internal appeal process for most proceedings.

Section 8: Preissuance Submissions by Third Parties (effective 1 year after enactment).

Allows third parties to submit any patent, published patent application, or other printed publication. Must be submitted before (a) a notice of allowance is mailed; (b) within 6 months after publication of the application; and (c) before the examiner issues an office action with a rejection. Must also include a concise description of the relevance of the submitted prior art.

Section 9: Venue (effective upon enactment). Suits against the U.S. PTO must now be brought in the Eastern District of Virginia, instead of the District of Columbia.

Section 10: Fee-Setting Authority (effective 60 days after enactment).

Allows the PTO to set its own fees to cover estimated operating and administrative costs, in consultation with the Patent Public Advisory Committee and the Trademark Public Advisory Committee, subject to a 7-year sunset provision. Creates a new “micro entity” that is entitled to a 75% PTO fee reduction. “Micro entity” is defined as a small entity that has filed not more than 4 U.S. patent applications; had a gross income that did not

exceed three times the median household income; and has not assigned or is under an obligation to assign the patent application to an entity that had a gross income exceeding three times the median household income. Specifically includes all “institutions of higher learning” (colleges and universities) without regard to other requirements. Imposes an additional \$400 fee for utility patent applications that are not filed electronically, with a 50% reduction for small entities.

Section 11: Fees for Patent Services (effective 10 days after enactment). Creates a new “prioritized examination” fee of \$4,800 (in addition to the normal filing fees) for utility and plant patents, with a 50% reduction for small entities. Allows the PTO to limit the number of “prioritized examination” filings each year. Prioritized examination applications are limited to 4 independent claims and 30 total claims. Also imposes a 15% across-the board surcharge on all patent fees.

Section 12: Supplemental Examination (effective 1 year after enactment): Creates a new process for patent owners to request “supplemental examination” of an issued patent to consider or correct information that may be relevant to patentability. Requires a “substantial new question of patentability” before the PTO will conduct a reexamination of the patent. Prohibits defendants from challenging the enforceability of a patent on the basis of information that is submitted in a supplemental examination proceeding (i.e., it is intended to permit a “cleansing” of a patent that might have been subjected to inequitable conduct during its original examination). Does not apply to patents whose enforceability was already challenged before a request for supplemental examination was filed. If the PTO becomes aware of “material fraud” during the supplemental examination, the PTO must refer the case to the Attorney General for possible prosecution.

Section 13: Funding Agreements (effective upon enactment): Increases the share of royalties that may be retained by universities under the Bayh-Dole Act for federally-funded inventions.

Section 14: Tax Strategies Deemed Within the Prior Art (effective upon enactment): Declares that any strategy for reducing, avoiding or deferring any sort of tax liability shall be deemed insufficient to differentiate a claimed invention from the prior art. Does not apply to inventions relating solely to preparation of income tax returns. Also does not apply to products “used solely for financial management.”

Section 15: Best Mode Requirement (effective upon enactment for actions brought after enactment): Eliminates attacks on best mode as an invalidity basis for patents, even though the best mode requirement itself has not been eliminated.

Section 16: Marking (effective upon enactment, including cases pending as of enactment): Allows for “virtual marking” of patent numbers by listing patent numbers on websites. Articles can be marked with websites at which the patent numbers are listed. Declares that only the U.S. government may sue for statutory damages for the false marking of patent numbers. Civil suits may still be brought by entities that have suffered a competitive injury, but damages are limited to “damages adequate to

compensate for the injury.” Also declares that marking an expired patent shall not be considered to be “false marking” if the patent at one time actually covered the marked product. Note apparent intention that pending false marking cases be dismissed.

Section 17: Advice of Counsel (effective upon enactment): Failure of an infringer to obtain advice of counsel for any allegedly infringed patent may not be used to prove that any infringement was willful, or that the infringer intended to induce infringement of the patent.

Section 18: Transitional Program for Covered Business Method Patents (effective 1 year after enactment; applies to patents issued before or after enactment): Creates an 8-year program that permits post-grant challenges to the validity of “covered business method patents.” “Covered business method patents” include a method or apparatus for performing data processing operations used in the practice of a financial product or service, but excludes “technological inventions.” Only available to entities that have been sued or threatened with infringement over the patent. Allows immediate interlocutory appeals of a district court’s decision to stay or refuse a stay of litigation while the post-grant review process is conducted. Provides that an ATM is not a “regular and established place of business” for purposes of venue.

Section 19: Jurisdiction and Procedural Matters (effective upon enactment): Clarifies federal court jurisdiction over patent and copyright cases. Limits the joinder of multiple defendants in patent infringement cases – merely alleging that a group of defendants infringes a patent shall not be sufficient to join them in one action.

Sections 20-37: Mostly minor technical amendments to the patent statute, as well as requiring that various studies be undertaken by the PTO with reports to Congress. Sets up a “Patent and Trademark Fee Reserve Fund” in the Treasury Department; fees collected beyond the appropriated amount would be made available to the PTO only if appropriated by Congress. (Note: this leaves open the door for Congress to continue stealing PTO fees and diverting them to other areas of the government).

What is the Likely Effect of These Changes?

1. Increased pressure to file more provisional applications and to file applications faster.
2. Potentially more opportunities for patent-barring events (on-sale bar, public use anywhere in the world, arguably without a one-year grace period). May also provide incentive for earlier disclosures to prevent others from obtaining patents.
3. More foreign prior art following overruling of Hilmer doctrine.
4. Hopefully faster processing of post-grant review (to be conducted within one year, and without separate appeal to the Board of Appeal).
5. Reduced expenses due to elimination of interference procedures.
6. Potentially more prior art due to elimination of swearing behind prior art.
7. Increased complexity for patent lawyers due to different rules depending on patent filing dates and effective dates of various provisions.
8. Broadly increased opportunities to attack issued patents in the PTO on any ground

- except for best mode – can now attack based on enablement, written description, statutory subject matter, double patenting, etc. (not previously available).
9. New opportunities to prevent questionable patents from issuing by submitting prior art to the PTO while applications are pending.
 10. Elimination of nuisance “false marking” suits, including dismissal of existing suits.
 11. Fewer patent infringement lawsuits naming multiple defendants.
 12. Higher PTO fees, hopefully spurring increased hiring of examiners and faster processing, but possibly reducing patent filings by inventors and companies.
 13. Possible that Congress could steal PTO fees to cover budget deficits, defeating purpose of higher fee collections.
 14. More frequent challenges to so-called “business method” patents.
 15. Expansion of prior-user right defense may lead to more inventions retained as trade secrets instead of patent filings.
 16. Elimination of best mode invalidity defense may lead to decrease in quality of patent disclosures (hard to tell since patent attorneys will undoubtedly continue advising clients to comply with the requirement).

II. PTO DEVELOPMENTS

A. Prioritized Examination Program. On April 4, 2011, the PTO published a final rule to implement a procedure under which patent applicants could request prioritized examination of patent applications at the time of filing a patent application by paying a large (\$4,000) fee. The rule set a starting date of May 4, 2011 for the new program. But on April 29, 2011, the PTO suddenly issued a new notice placing the new program on hold until further notice, presumably because it could not be assured that the PTO would be able to actually keep the new fees generated under the program. See 76 Fed. Reg. 23876 (April 29, 2011).

B. PTO Expands First Action Interview Program to All Areas. On May 16, 2011, the PTO announced that it was expanding its first-action interview program to all areas of technology. Under the pilot program, applicants may request an interview with the examiner prior to issuance of an office action. The examiner will conduct a prior art search and prepare a possible set of rejections. The applicant has 30 days to either waive the interview or schedule the interview with proposed amendments. The objective is to speed up the examination process.

C. PTO Issues Supplementary Examination Guidelines Regarding 35 U.S.C. § 112. On February 9, 2011, the PTO published supplementary guidelines (72 Fed. Reg. 7162) for determining compliance with 35 U.S.C. § 112, including the use of so-called “functional” language for computer-implemented inventions. In addition to summarizing the case law regarding this issue, the guidelines state that if the language of a claim could be understood to have more than one reasonable interpretation, then examiners should reject the claim. As to so-called “functional” language, the guidelines state that claims reciting purely functional language without also reciting any concrete structure (e.g., “module,” “mechanism,” “component,” “element,” “member,” etc.) should be interpreted as a

means-plus-function limitation. For a computer-implemented means-plus-function claim limitation, the corresponding structure must be more than simply a general-purpose computer or microprocessor. The specification must disclose a specific algorithm in the form of a flowchart or other detailed steps for performing the function. Moreover, “Functional claim language may render the claims broad when the claim is not limited to any particular structure for performing the claimed function. Since such a claim covers all devices which perform the recited function, there is a concern regarding whether the scope of enablement provided to one skilled in the art by the disclosure is commensurate in scope with the scope of protection sought by the claim.”

III. CASE LAW

A. Patentability, Validity, and Procurement of Patents

1. Statutory Subject Matter

Research Corp. Techs. Inc. 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.”

Association for Molecular Pathology v. U.S. Patent and Trademark Office, ___ F.3d ___, 2011 WL 3211513 (Fed. Cir. July 29, 2011). The Federal Circuit overturned in large part a district court’s ruling that patents covering compositions and methods relating to the human genes BRCA1 and BRCA2 were not patent-eligible subject matter. Myriad Genetics had warned various persons that it had patents covering various diagnostic tests for certain breast-cancer genes, prompting this declaratory-judgment lawsuit challenging the validity of the patents. The Federal Circuit agreed that one of the named plaintiffs, Dr. Ostrer, had standing to sue because he declared an immediate intention to engage in activities that would constitute infringement. The majority also concluded that patent claims directed to the composition of isolated DNA molecules recited patentable subject matter, because they did not exist in nature. However, as to certain claims to methods of “comparing” or “analyzing” two gene sequences, the majority of the panel concluded that such claims recited merely an unpatentable

abstract idea. (Note: the U.S. PTO had been dismissed from the case by the district court, but remained a named defendant on appeal).

Cybersource Corp. v. Retail Decisions, Inc., ___ F.3d ___, 2011 WL 3584472 (Fed. Cir. Aug. 16, 2011). In a decision that startled many patent attorneys who specialize in computer-related inventions, a panel of the Federal Circuit held that a claim to a computer-readable medium (a so-called “Beauregard” claim) was not eligible for patenting because it recited nothing more than an abstract idea. In this case, claim 3 recited a process for verifying the validity of credit card transactions over the Internet. Claim 2 recited a computer readable medium containing program instructions for executing the same process. After concluding that process claim 3 did not meet the machine-or-transformation test and it was merely an abstract idea because its steps could be entirely performed by the human mind (i.e., a so-called “mental process”), the court then somewhat surprisingly concluded that claim 2, which recited a computer-readable medium having instructions for carrying out the process, was also unpatentable. According to the court, “Regardless of what statutory category (‘process, machine, manufacture, or composition of matter,’ 35 U.S.C. § 101) a claim’s language is crafted to literally invoke, we look to the underlying invention for patent-eligibility purposes. Here, it is clear that the invention underlying both claims 2 and 3 is a method for detecting credit card fraud, not a manufacture for storing computer-readable information.” The court further stated that “CyberSource has not met its burden to demonstrate that claim 2 is ‘truly drawn to a specific’ computer readable medium, rather than to the underlying method of credit card fraud detection.”

Classen Immunotherapies Inc. v. Biogen IDEC, ___ F.3d ___, 2011 WL 3835409 (Fed. Cir. Aug. 31, 2011). A split panel of the Federal Circuit held that claims recited patent-eligible subject matter, overturning a district court decision and following a Supreme Court review of the case. The claims recited methods for immunizing infants for infectious diseases, including steps of “identifying,” “comparing,” and “immunizing”. The panel majority held that the immunization step moved the claims through the “coarse filter” of section 101 of the patent statute. Judge Moore dissented, arguing that the claims were too abstract and broad to deserve patent protection.

2. Written Description Requirement

Boston Scientific Corp. v. Johnson & Johnson, ___ F.3d ___, 2011 WL 2184283 (Fed. Cir. June 7, 2011). The Federal Circuit upheld a ruling that patent claims to drug-eluting stents were invalid for lack of written description. The claims were directed to drug-eluting stents using either rapamycin or a macrocyclic analog of rapamycin. The Federal Circuit noted that “A written description of an invention involving a chemical genus, like a description of a chemical species, requires a

precise definition, such as by structure, formula, or chemical name.” The court explained that no analogs were disclosed in the specification, and although a small number of such analogs were known in the prior art, “the claims cover tens of thousands of possible macrocyclic lactone analogs.”

3. On-Sale Bar Even if Invention Not Ready for Patenting

August Technology Corp. v. Camtek, Ltd., ___ F.3d ___ (Fed. Cir. August 22, 2011). The Federal Circuit held that a commercial offer for sale made before the invention was actually conceived could create an on-sale bar when the invention was later conceived. “[I]f an offer for sale is extended and remains open, a subsequent conception will cause it to become an offer for sale of the invention as of the conception date.” Nevertheless, in this case, the invention offered for sale did not render the claims obvious. (The latter conclusion strongly suggests that the court’s on-sale bar ruling was dictum.)

4. Filing Reissue Application to Add Dependent Claims

In re Tanaka, 640 F.3d 1246 (Fed. Cir. 2011). In this appeal from the PTO’s Board of Patent Appeals and Interferences, the Federal Circuit held that a patent owner may file a reissue application solely for the purpose of adding dependent claims as a hedge against possible invalidity of broader claims. The Board of Appeals had held that such a filing was not the type of “error” that could be corrected through a reissue proceeding.

5. Burden for Proving Invalidity of a U.S. Patent

Microsoft Corp. v. i4i Ltd. Partnership, 131 S.Ct. 2238 (2011). The U.S. Supreme Court held that a party challenging the validity of an issued U.S. patent must prove such invalidity by “clear and convincing” evidence, not merely a preponderance of the evidence, even if the prior art asserted to establish invalidity was never considered by the U.S. PTO when it decided to grant the patent. In this case, Microsoft asserted that it should not have to prove invalidity by the higher burden of clear and convincing evidence because the prior art on which it relied was never considered the PTO. The Supreme Court rejected that argument, but it stated that the jury could be instructed that the evidence was never considered by the PTO.

B. Interpretation of Patents

1. Claim Construction

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

Akamai Tech., Inc. v. Limelight Networks, Inc., 629 F.3d 1311 (Fed. Cir. 2010), *vacated and rehearing en banc granted*, 2011 WL 1518909 (Fed. Cir. April 20, 2011). 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 1373 (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.” Note: an amicus brief was filed by Cisco, Dell, Google, and several other technology companies, urging that the original decision be upheld.

Centillion Data Sys., LLC v. Qwest Comm. Int’l, 631 F.3d 1279 (Fed. Cir. 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.

McKesson Technologies Inc. v. Epic Systems Corp., 2011 WL 1365548 (Fed. Cir. April 12, 2011), *vacated and rehearing en banc granted*, 2011 WL 2173401 (Fed. Cir. May 26, 2011). McKesson’s patent covering an electronic method of communication between healthcare providers and patients was held to be not infringed, because not all steps of the method were performed by a single person, and there was no agency relationship among the alleged joint actors obligating the other party to carry out one of the method steps. The method claim included a first step of “initiating a communication by one of the plurality of users,” which admitted was performed only by users of the system, whereas the remaining steps were performed by another entity. Following its decision in *Akamai* (see above),

the Federal Circuit held that the mere existence of a doctor-patient relationship did not impose on the patients a contractual obligation to perform a step so that it could be attributed to the doctor. As explained by the court, “MyChart users choose whether or not to initiate communications with their providers and are under no obligation to do so.” Because there was no direct infringement, there could be no induced infringement. Note: amicus briefs were filed by Cisco, Dell, Google, and several other technology companies, urging that the original decision be upheld (i.e., making it more difficult to find infringement of so-called “multi-actor” method claims).

3. Induced Infringement

Global-Tech Appliances, Inc. v. SEB S.A., 131 S.Ct. 2060 (2011). 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 Federal Circuit 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. The U.S. Supreme Court affirmed, but on a slightly different ground – it concluded that Global-Tech exhibited “willful blindness” to possible evidence that the accused device might infringe a patent. The Court stated that Global-Tech subjectively believed that SEB’s fryer was patented, but intentionally failed to inform its patent attorney of that fact.

4. 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 (Fed. Cir. 2010) (order granting petition for writ of mandamus). 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, 630 F.3d 1361 (Fed. Cir. 2011) (order granting petition for writ of mandamus, reissued as precedential opinion). 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.

In re Verizon Business Network Services Inc., 635 F.3d 559 (Fed. Cir. 2011) (order granting petition for writ of mandamus). The Federal Circuit issued a writ of mandamus to the Eastern District of Texas ordering that a patent infringement suit be transferred to the Northern District of Texas. The Federal Circuit noted that the Northern District of Texas was far more convenient for the witnesses, and it rejected the district court’s conclusion that because the same patent had been previously litigated five years earlier in the Eastern District of Texas, the lawsuit should remain in its court. According to the Federal Circuit, “we deem the Eastern District’s previous claim construction in a case that settled more than five years before the filing of this lawsuit to be too tenuous a reason to support denial of transfer.”

2. Damages

Uniloc USA, Inc. v. Microsoft Corp., 632 F.3d 1292 (Fed. Cir. 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

Therasense, Inc. v. Becton, Dickinson & Co., ___ F.3d ___, 2011 WL 2028255 (Fed. Cir. May 25, 2011). The *en banc* Federal Circuit issued a sweeping change to the law of inequitable conduct, making it much harder to prove this defense to patent infringement. A divided panel of the Federal Circuit had originally upheld a district court’s decision that a patent was unenforceable for inequitable conduct because the patent owner had 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. After an *en banc* rehearing, the full Federal Circuit vacated and remanded the case under its new test. Under its old case law, proving inequitable conduct required a threshold showing that the patent owner misrepresented (or withheld) material information from the PTO, and that it did so with intent to deceive. The district court would then balance the level of materiality with intent in order to determine whether the patent should be held unenforceable. The case law left room for arguing that intent could be “inferred” from the circumstances, and the level of materiality required to prove inequitable conduct was confusing.

The *en banc* court significantly clarified the law. First, the Federal Circuit stated that information is not material unless the PTO would not have issued the patent without considering the information – in other words, a “but-for” standard that will be difficult to prove in many cases. “When an applicant fails to disclose prior art to the PTO, that prior art is but-for material if the PTO would not have allowed a claim had it been aware of the undisclosed prior art.” The court abandoned the “reasonable examiner” standard for materiality. Second, the Federal Circuit stated that the level of intent required to prove inequitable conduct must be “specific intent to deceive” – if an inference of intent to deceive is to be found, it must be the single most reasonable inference to be drawn from the evidence. Finally, the court rejected the sliding scale approach to the test – in other words, intent may not be inferred solely from materiality, and vice versa. Finally, the court left open the possibility that inequitable conduct could be proved by a patent owner who “has engaged in affirmative acts of egregious conduct,” such as “the filing of an unmistakably false affidavit.” Future case law will undoubtedly flesh out this latter exception to the rule.

In short, after *Therasense*, an inequitable conduct allegation based on failure to disclose prior art requires clear and convincing evidence of three things: (1) the applicant knew of the prior art; (2) the applicant knew that the prior art was

material; and (3) the applicant made a deliberate decision to withhold it. In addition to showing these three things, the challenger must establish that “but-for” the nondisclosed information, the PTO would not have allowed the patent.

Note: The USPTO has announced in proposed rulemaking that it would revise its duty-to-disclose standards to mirror those announced by the Federal Circuit in *Therasense*. Specifically, information will not be considered material unless (1) the PTO would not allow a claim if it were aware of the information, or (2) the applicant engages in affirmative egregious misconduct.

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., 646 F.3d 869 (Fed. Cir. 2011) (en banc). The Federal Circuit, sitting *en banc*, clarified what circumstances would justify holding a contempt hearing as opposed to requiring that a new patent infringement lawsuit be filed. Tivo had sued Echostar for infringing a patent relating to “time-warping” of TV programs by allowing users to simultaneously record and play TV broadcasts. Following a jury trial, the district court entered a permanent injunction against Echostar, ordering that Echostar stop making or selling infringing devices, and to disable the DVR functionality in its existing receivers. Tivo then filed a contempt motion against Echostar based on Echostar’s claims that it had modified the allegedly infringing devices to be non-infringing. The district court found that Echostar was in contempt because its modified devices were not more than “colorably different” from the devices found to be infringing. First, the Federal Circuit held that merely because Echostar obtained an opinion of counsel that the modified devices were non-infringing did not insulate Echostar from a charge of contempt. Second, the Federal Circuit overruled its prior precedent in *KSM Fastening Systems v. H.A. Jones*, a 1985 case, and instead ruled that district courts need not separately determine whether a contempt proceeding is an appropriate setting for assessing infringement. “Allegations that contempt proceedings were improper in the first instance do not state a defense to contempt. As to the question whether an injunction against patent infringement has been violated, courts should continue to employ a ‘more than colorable differences’ standard.” Third, the court stated that district courts should focus on the differences between the features relied upon to establish

infringement and the modified features of the newly accused products. The court also stated that the district court must look to the relevant prior art to determine whether the modification merely employs elements already known in the prior art, or employs a nonobvious modification, which the court suggested would result in a finding of a colorable difference from the claimed invention. Finally, the court concluded that upon finding that there were no more than colorable differences from the prior accused product, the district court must still conclude that the modified design still infringes the patent. The patentee bears the burden of proving violation of the injunction by clear and convincing evidence. In this case, because Tivo had never relied upon the redesigned feature as evidence of infringement, the Federal Circuit vacated and remanded for further proceedings.

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

Hyatt v. Kappos, 625 F.3d 1320 (Fed. Cir. 2010) (en banc), *cert granted*, 131 S.Ct. 3064 (June 27, 2011). 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.

7. Forcing Patent Owners to Limit Number of Asserted Claims

In re Katz Interactive Call Processing Patent Litigation, 639 F.3d 1303 (Fed. Cir. 2011). Katz asserted 1,975 claims from 31 patents against 165 defendants in various lawsuits, which were consolidated and transferred to the Central District of California. The district court ordered Katz to select no more than 40 patent claims per defendant group, and after discovery to narrow the claims to 16 per defendant group, with a maximum total of 64 asserted claims. Katz argued that these restrictions limited his due process rights, because the court's order could result in decisions having a preclusive effect on non-selected claims. The district court disagreed, noting that Katz would be permitted to add more claims if he could demonstrate that the new claims raised non-duplicative issues of validity or infringement. The court then ruled on summary judgment that all the asserted claims were either invalid or not infringed. The Federal Circuit upheld the district court's procedures to limit the number of asserted claims, paving the way for future patent infringement defendants to simplify complex patent cases involving numerous patents and defendants.

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

Board of Trustees of the Leland Stanford Junior Univ. v. Roche Molecular Systems, Inc., 131 S.Ct. 2188 (2011). 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 later 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 affirmed, concluding that the Bayh-Dole Act did not automatically vest ownership in Stanford University, but only constituted an agreement to assign invention rights in the future. Instead, Stanford University could have worded its invention agreement with the research fellow in such a way that Stanford would have automatically owned the patent rights.

9. Prosecution Laches – Showing of Prejudice Required

Cancer Research Technology Ltd. v. Barr Labs, Inc., 625 F.3d 724 (Fed. Cir. 2010), *cert denied*, 637 F.3d 1293 (Fed. Cir. 2011). 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. Note: 5 judges dissented from the denial of the petition for rehearing.

10. Patent Licenses Presumed to Cover Continuation Applications

General Protecht Group, Inc. v. Leviton Mfg. Co., ___ F.3d ___, 2011 WL 2666222 (Fed. Cir. July 8, 2011). Leviton had sued General Protecht for patent infringement, and the parties settled before trial, resulting in a license for two Leviton patents. Leviton continued to file continuation applications based on the licensed patents, resulting in two continuation patents. Leviton then sued General Protecht over the continuation patents, and General Protecht filed a declaratory judgment action for breach of contract, non-infringement, and invalidity. The Federal Circuit held that "where, as here, continuations issue from parent patents that previously have been licensed as to certain products, it may be presumed that, absent a clear indication of mutual intent to the contrary, those products are impliedly licensed under the continuations as well. If the parties intend otherwise, it is their burden to make such intent clear in the license."

11. Sanctions for Frivolous Patent Cases

Eon-Net LP v. Flagstar Bancorp, ___ F.3d ___, 2011 WL 3211512 (Fed. Cir. July 29, 2011). The Federal Circuit upheld an award of attorneys fees and Rule 11 sanctions against a plaintiff that had filed more than 100 lawsuits over a patent

relating to a computerized document processing system. Of particular interest is the Federal Circuit's reprimand that a non-practicing entity had sued a large number of defendants yet offered to settle each case for \$25,000 to \$75,000, suggesting "indicia of extortion" due to the plaintiff's ability to impose disproportionate discovery costs while remaining essentially immune to countersuit. The Federal Circuit stated that, "those low settlement offers – less than ten percent of the cost that Flagstar expended to defend suit – effectively ensured that Eon-Net's baseless infringement allegations remained unexposed, allowing Eon-Net to continue to collect additional nuisance value settlements."