



2007 A Big Year for Patent Law

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2007 - A Big Year for Patent Law

- **Supreme Court Decisions and Cert. Petitions**
- **Federal Circuit *en banc* decisions**
- **New PTO Rules and lawsuit enjoining**
- **Passage of significant Patent Reform Act by House**



Top Patent Cases Decided in 2007

The Big Three at the Supremes

- 1. MedImmune v. Genentech (and Sandisk)**
(licensee estoppel and declaratory judgments)
- 2. Microsoft v. AT&T**
(extraterritorial infringement)
- 3. KSR v. Teleflex (and LeapFrog)**
(obviousness)

Top Patent Cases Decided in 2007

Important FC Decisions

4. **In re Seagate Technologies**
(willful infringement and opinions of counsel)
5. **McKesson v. Bridge Medical**
(inequitable conduct)
6. **BMC Resources v. Paymentech**
(joint direct infringement)
7. **Voda v. Cordis Corp.**
(jurisdiction over foreign patent claims)

Top Patent Cases Decided in 2007

Important FC Decisions (cont.)

8. In re Nuijten/In re Comiskey

(statutory subject matter)

9. Paice LLC v. Toyota Motor Corp.

(future royalty accounting)

District Court

10. Tafas v. Dudas

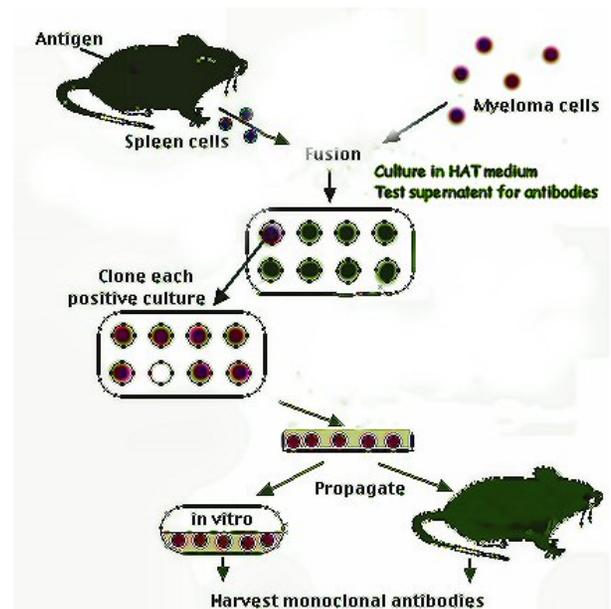
(enjoining new PTO rules)

MedImmune, Inc. v. Genentech, Inc.

127 S. Ct. 764 (2007)

Impact on Patent Licensing

- No more "patent peace" with cross licenses
- Licensee retains some leverage to get a better deal
- Various efforts to "MedImmune" license agreements
 - termination provisions triggered off challenge
 - accelerated/graduated payments triggered off challenge
 - new resolution procedures, arbitrate validity



The Real Mischief - Footnote 11

- **Supreme Court attacks the Federal Circuit's rule requiring reasonable apprehension of (imminent) suit before filing a d/j action**

"A licensee who pays royalties under compulsion of an injunction has no more apprehension of imminent harm than a licensee who pays royalties for fear of treble damages and an injunction fatal to his business."

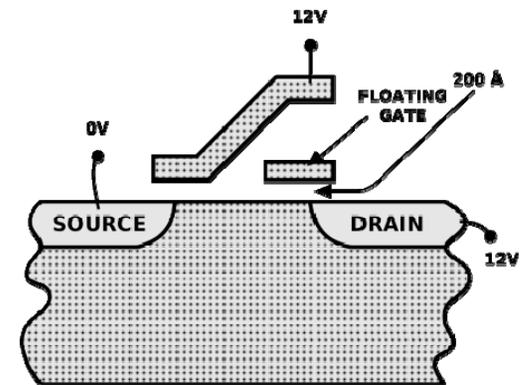
- **Federal Circuit's rule is inconsistent with several Supreme Court decisions**

Federal Circuit Responds



- ***SanDisk Corp. v. STMicroelectronics Inc.***
(Fed. Cir. March 26, 2007)
 - During license negotiations, ST brought three technical experts to present a "thorough infringement analysis" and referred to SanDisk's "ongoing infringement."
 - BUT ST indicated that it had "absolutely no plan whatsoever to sue SanDisk."

"where a patentee asserts rights under a patent based on certain identified ongoing or planned activity without a license, an Article III case or controversy will arise"



Before and After FN #11

BEFORE

287 notice letters that don't trigger d/j

Safe harbor for license negotiations

Patentee writing letters to resolve disputes

Reasonable apprehension of imminent suit



AFTER

If enough to provide 287 notice, enough to file d/j

Negotiations amount to assertion of rights

Patentee filing lawsuits to begin negotiations

Disagreement over the need for a patent license

Microsoft Corp. v. AT&T Corp.

550 U.S. ____ (No. 05-1056, April 30, 2007)

Federal Circuit Expands its Reach

- Software code is a **“component”** under the statute (decided by *Eolas v Microsoft*)
- Copies of software are **“supplied”** because supplying of software necessarily means making a copy
- So . . . sending a single copy abroad with the intent that it be replicated invokes § 271(f) liability for those foreign-made copies

```
00003 Function LoadWordWithImageGallery() As Boolean
00004 ' Loads Word and connects Image Gallery add-in.
00005 ' If Image Gallery add-in is not available, procedure
00006 ' fails silently and returns False.
00007
00008 Dim wdApp As Word.Application
00009 Dim comAddIn As Office.ComAddIn
00010
00011 ' Create instance of Word and make visible.
00012 Set wdApp = New Word.Application
00013 wdApp.Visible = True
00014 ' Add new document.
00015 wdApp.Documents.Add
00016
00017 ' Return reference to COM add-in, checking for error
00018 ' in case it doesn't exist.
00019 On Error Resume Next
00020 ' Set reference to COM add-in by using its ProgID property value.
00021 Set comAddIn = wdApp.ComAddIns("ImageGallery.dsrImageWord")
00022 If Err.Number = 0 Then
00023     ' Connect add-in.
00024     comAddIn.Connect = True
00025     ' Perform other operations here.
00026     .
00027     .
00028     .
00029     LoadWordWithImageGallery = True
00030 Else
00031     ' Return False if error occurred.
00032     LoadWordWithImageGallery = False
00033 End If
00034
00035 ' Enter break mode here to verify that add-in is loaded.
00036 Stop
00037
00038 ' Quit Word.
00039 wdApp.Quit
00040 Set wdApp = Nothing
00041 End Function
```

Supreme Court Pushes Back

- The master disk is not a combinable "**component**" of the patented device
- Copies of Windows installed on foreign computers are not "**supplied**" from the U.S.
- Concerns about extraterritorial reach, and Congress can fix if they like



If AT&T wants to prevent foreign copying, get foreign patents

Microsoft Fallout

- **Big relief to U.S. software companies**
- **Application to method claims and software generally? (see footnote #13)**
- **May see some activity from Congress**



KSR Int'l Co. v. Teleflex Inc.

550 U.S. ____ (No. 04-1350, April 30, 2007)

Not Obvious at the Federal Circuit

- **The TSM test can be satisfied with either an explicit or implicit suggestion, but must be "specific"**
- **The test provides an objective way to avoid hindsight problems**
- **Some argue that requiring specific suggestion may lead to patents on trivial developments**



A picture is worth a thousand words.

Obvious at the Supreme Court

- **Court rejected Fed. Circuit's strict TSM test**
 - "The combination of familiar elements according to known methods is likely to be obvious when it does no more than yield *predictable* results."
- **Expanded scope of analogous art**
 - Art from one field may be combined with art from another "if design incentives and other market forces" prompt the adaptation.
- **"Obvious to try" CAN result in obviousness**
 - Obviousness of trying an improvement to a prior art reference can establish §103 obviousness when "there are a finite number of identified, *predictable* solutions."

USPTO Reaction

- Reaffirms "expansive and flexible" approach outlined in **Graham v. John Deere**
- TSM test is not dead, but should not be applied strictly
- Examiners should still give a reason to combine references



"The decision gives our examiners more flexibility to use their considerable technical skills to reject obvious changes to existing technology." - Jon W. Dudas, Director of USPTO

Federal Circuit Responds

- *LeapFrog Enterprises Inc. v. Fisher-Price Inc.* (No. 06-1402, May 8, 2007)
- The Court found that "[a]pplying modern electronics to older mechanical devices has been commonplace in recent years."
- Combinations can be motivated by "decreased size, increased reliability, simplified operation, and reduced cost."



KSR Fallout

- **More combinations, more invalidations**
- **Looking beyond the problem solved**
- **Judges more likely to invalidate under §103 as a matter of law before the jury considers**
- **Clear impact for "predictable" mechanical inventions, but what about unpredictable arts like biotech?**

In re Seagate Technology, LLC

497 F.3d 1360 (Fed. Cir. 2007) (*en banc*)

Seagate - Willfulness and Waiver

- Convolv sues Seagate alleging willful infringement
- Seagate relies on and produces opinions of counsel to defend against willful infringement
- District court concludes that disclosure of opinions waives privilege for trial counsel communications
- Seagate petitions for writ of mandamus, and Federal Circuit stays district court order and *sua sponte* order *en banc* review



Federal Circuit En Banc (Again)

- Second time *en banc* in 3 years (*Knorr-Bremse*)
- Questions presented:
 1. Should advice of counsel defense waive privilege with trial counsel? (FN #4)
 2. How does the waiver affect work-product immunity?
 3. Should the *Underwater Devices* duty of care be reexamined?



Affirmative Duty of Care . . . GONE

[W]e overrule the standard set out in *Underwater Devices* and hold that proof of willful infringement permitting enhanced damages requires at least a showing of objective recklessness. Because we abandon the affirmative duty of due care, we also reemphasize that there is no affirmative obligation to obtain [an] opinion of counsel.

New Test for Willful Infringement Adopted

- **"Objective Recklessness"** required for willful infringement
- **Two-Part Test**
 - Accused infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent.
 - State of mind of the accused infringer is irrelevant
 - The objectively defined risk of infringement was known or so obvious that it should have been known to the accused infringer.

So, What About Waiver?

- **Waiver does not "ordinarily" extend to trial counsel communications and work product**
- **Waiver may extend to trial counsel only in "unique circumstances"**
- **Only one unique circumstance identified, chicanery**
- **Other "unique circumstances" left to judge's discretion**

Implications of Seagate?



Attend February 26, 2008 Austin
IPLA luncheon to find out more!

McKesson Information Solutions Inc. v. Bridge Medical Inc.

487 F.3d 897 (Fed. Cir. 2007)

McKesson - Inequitable Conduct

- **3 separate grounds for inequitable conduct alleged**
 - Failure to disclose Baker patent
 - Failure to disclose rejections issued in a co-pending application assigned to different examiner
 - Failure to disclose a notice of allowance of claims in CIP *assigned to same examiner*
- **District Court finds inequitable conduct in all three instances**
- **Federal Circuit affirms**



Parallel Co-Pending Applications

- **Attorney files '716 Patent application, Assigned to Examiner Trafton**
- **Attorney files co-pending, but unrelated '149 patent application, assigned to Examiner Lev**
- **Attorney files CIP of '716 Patent application, also assigned to Examiner Trafton. This CIP issues as the '372 Patent**



Similar Claims in Co-Pending Apps

- **'716 Patent application claims a system with a "three node approach to communications" + a programmable unique address identifier**
- **'149 Application also claims a system with the "three node" approach + a unique address identifier**
- **'372 Patent also claims a system having the "three node" approach to communications**



Pertinent Events During Prosecution . . .

- **10/6/87 -- '716 prosecution -- attorney argues no references "teach the three node approach to communications" of the invention.**
- **10/23/87 -- '149 prosecution -- claims rejected based on Baker patent which discloses three node approach**
- **12/16/88 -- CIP Application of '716 Patent issues as '372 Patent with claims to three node approach**

Failure to Disclose Baker - Materiality

- **Baker materiality based on "reasonable examiner" standard**
- **Baker "highly material" because three node argument could not have been made in '716 prosecution**
- **Baker not cumulative**
 - Baker compared to each reference for quality and extent of disclosure

Failure to Disclose Baker - Intent

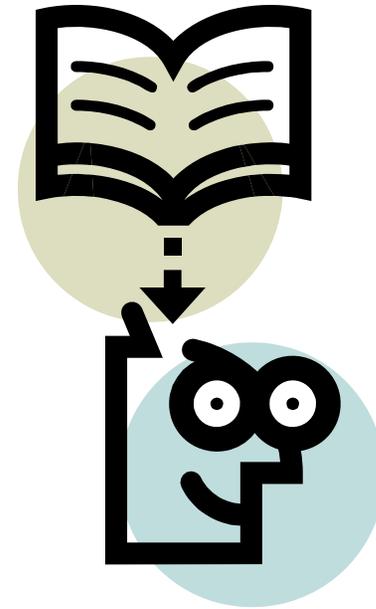
- **Disclosing co-pendency of '149 Application alone not enough to avoid finding of intent to deceive**
- **17-days between argument that no references disclose three node approach and citation of Baker in '149 prosecution shows attorney knew or should have known Baker's materiality**
- **Cancellation of three node claims in '149 application after Baker cited shows attorney realized Baker presented a "significant obstacle" to similar '716 Patent claims**
- **Lack of any credible explanation for nondisclosure -- no contemporaneous written documentation.**

Failure to Disclose Allowed Claims - Materiality

- **Allowed claims of co-pending application are material if a reasonable examiner would have considered them important, *even if the co-pending applications are before the same examiner.***
- **Allowed claims are material if those claims “give rise to a *conceivable* double-patenting rejection.”**
- **Materiality is not negated by prosecution of claims before the same examiner without evidence that the examiner was aware of the earlier allowed claims when the allowed the ‘716 Patent claims.**

Failure to Disclose Allowed Claims - Intent

- How could attorney have intent to withhold by non-disclosure when same examiner examined both applications?
- Federal Circuit: The fact that the Examiner allowed claims in both applications within 6 months does not negate intent where attorney testified that he did not consider the identity of the examiner in deciding whether to disclose information about co-pending applications.



McKesson Implications

- **Disclose communications and submissions in parallel co-pending applications with "similar" inventions**
 - Overlapping/similar claim limitations
 - Similar limitation argued as the distinction over prior art
 - Objective prosecution evidence that invention is similar (same prior art disclosed, same amendment made)
 - Claims more similar in scope and content than any prior art
- **Contemporaneously document any decision not to disclose**

**BMC Resources, Inc. v.
Paymentech, LLC,
498 F.3d 1373 (Fed. Cir. 2007)**

BMC - Joint Direct Infringement

- **BMC sued Paymentech for infringement of a patented method of processing debit bill payment transactions without a PIN**
- **Claim required combined actions of several participants**
 - Payee's agent
 - Remote payment network (ATM network like Pulse)
 - Debit card-issuing financial institution.
- **Paymentech is the payee's agent, and a direct competitor of BMC**



District Court denies BMC's claims



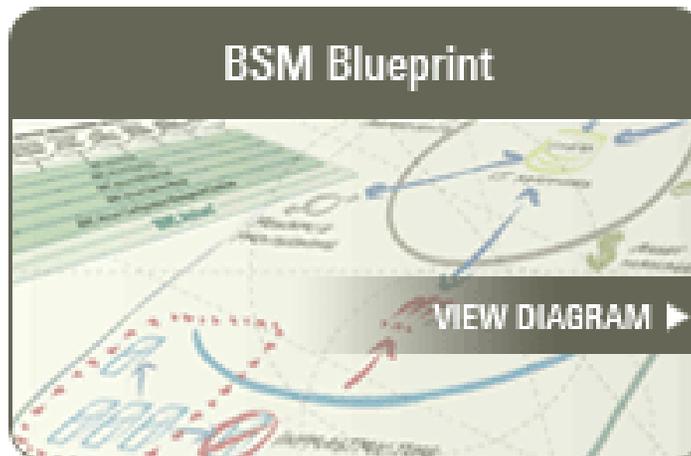
- **District Court grants Paymentech's motion for summary judgment of no infringement**
- **District Court ruled that Paymentech would only infringe if it directed or controlled the others who performed steps of the method, and that evidence of direction or control was insufficient**
- **District Court also ruled that evidence was insufficient under a "looser" test requiring "some connection" between Paymentech and the other entities.**

Federal Circuit Affirms

- **Held for Paymentech:**
 - A party must direct or control the actions of the others before liability can be imposed for joint infringement.
 - Federal Circuit's 2006 On Demand discussion of joint infringement is dicta (explicitly found "no flaw" as a statement of the law of joint infringement a jury instruction that did not require direction or control).
- **Arms-length agreements may avoid "direct and control"**
- **Issue probably fixed by drafting better claims.**

BMC v. Paymentech continues . . .

- **BMC filed motion for rehearing *en banc* in September**
- **Federal Circuit ordered a response brief in mid-December**
- **Response brief from Paymentech filed in mid-January**
- **Stay tuned**



Voda v. Cordis Corp.

476 F.3d 887 (Fed. Cir. 2007)

Voda - Foreign Patent Claims

- Technology: heart catheters
- Defendant: Cordis US (J&J)
- Infringement: domestically, and internationally by sister corporations in UK, Germany, Italy, France and Benelux
- Facts: Voda held patents in each country
Int'l patents arose from PCT from US
Patents were all very similar
Devices were designed, distributed, and sometimes made by Cordis US



Trying Foreign Patents in US?

- **Voda tried to consolidate worldwide infringement action in US district court**
- **Statutory Basis:**
 - Supplemental Jurisdiction 28 USC §1367(a)
 - Requires: same "case or controversy"
 - This can extend to foreign claims
- **District Court OKs adding the international patent infringement claims against Cordis US**

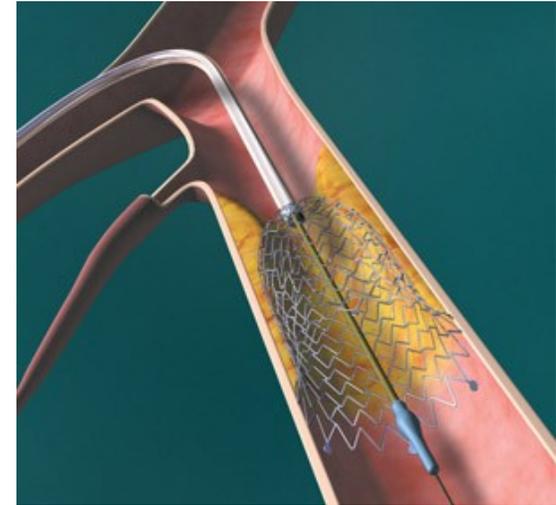


Federal Circuit says . . . not so fast

- **Yes, District Court can hear foreign patent claims under Supplemental Jurisdiction,**
- **But . . .**
 - 1367(c) provides an exception
 - Court "may decline" to exercise jurisdiction if there are other compelling reasons to decline
- **Court abused its discretion by not declining to exercise Supplemental Jurisdiction**

Federal Circuit Rationale

- **Applies Supreme Court Factors**
 - judicial economy, convenience, fairness, comity
- **Judicial economy - speculation**
- **Comity and Fairness**
 - District Court made no findings on comity or fairness
 - Deciding claims under foreign patent law is offensive to comity
 - No express authorization in patent treaties
- **No evidence enforcement unavailable in these countries**



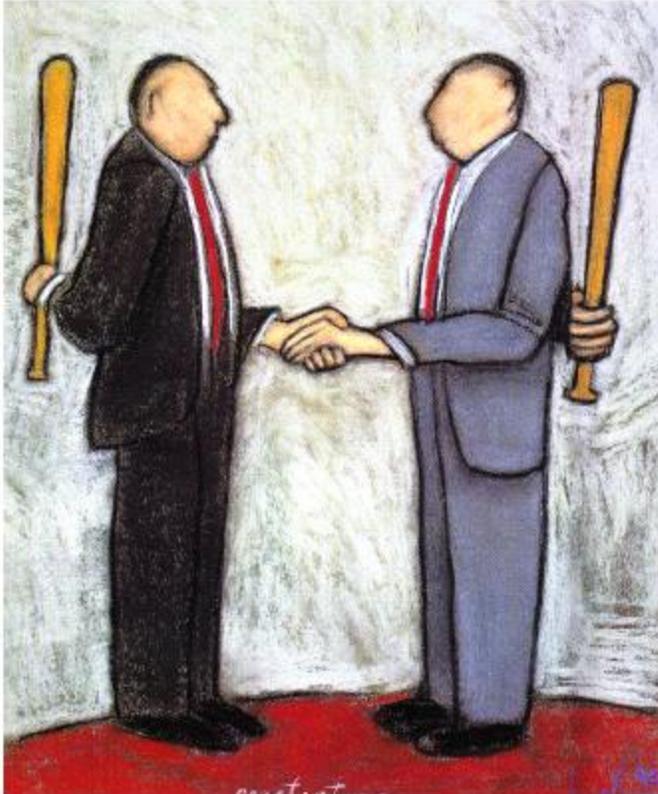
In re Comiskey

499 F.3d 1365 (Fed. Cir. 2007)

In re Nuijten

500 F.3d 1346 (Fed. Cir. 2007)

Comiskey - Business Methods



- **Claim 1: "method for mandatory arbitration resolution regarding one or more unilateral documents" with a series of steps**
- **Claim 32: same method as Claim 1, but with "contractual documents"**
- **Neither claim requires use of device such as a computer, can be performed by people**

PTO Rejects Claims 1 and 32

- **Examiner rejects Claims 1 and 32 as obvious in view of prior art**
- **Board of Patent Appeals affirms**



Unexpected Move from Federal Circuit

- **Supplemental briefing requested at oral argument on issue of patentable subject matter under 35 U.S.C. § 101**
- **Held: claims 1 and 32 are not directed to patentable subject matter, § 101 does not allow patents to be issued on business methods that depend entirely on use of mental processes**
- **Claims 1 and 32 claim the "mental process" of resolving a legal dispute by decision of a human arbitrator, and thus claim non-statutory subject matter**

Claims 17 and 46 are Statutory

- **Under broadest reasonable interpretation, Claims 17 and 46 could require the use of a computer as part of the arbitration system**
 - Each claim recites the use of a "module"
 - Claim 17 also recites "a means for selecting an arbitrator from an arbitrator database."

"While the mere use of the machine to collect data necessary for application of the mental process may not make the claim patentable subject matter, . . . these claims in combining the use of machines with a mental process, claim patentable subject matter"

But, Claims 17 and 46 May Be Invalid . . .

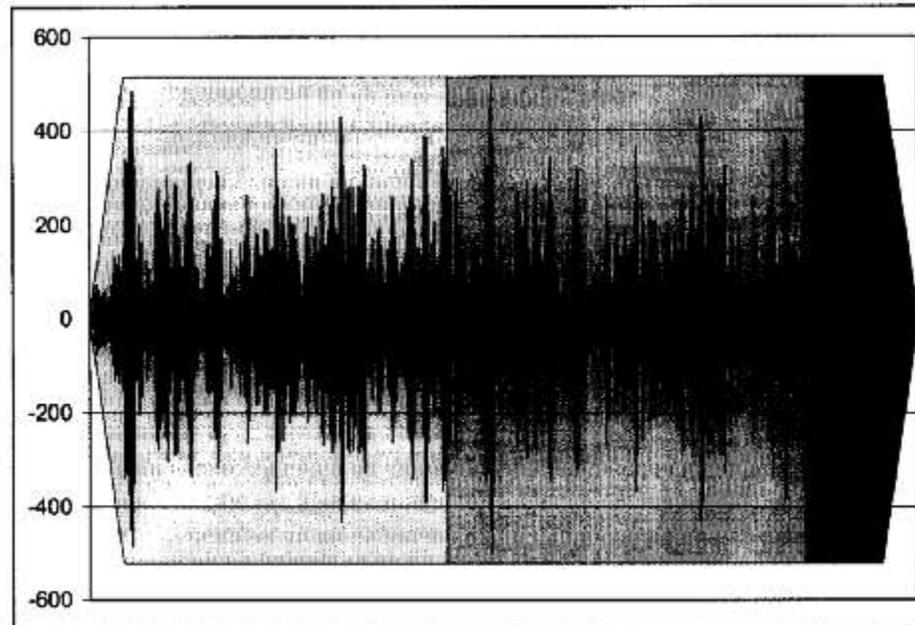
- **Without holding claims obvious, Federal Circuit observes:**
 - Claims 17 and 46 merely add a modern general purpose computer to an otherwise unpatentable mental process



- The routine addition of modern electronics to an otherwise unpatentable invention typically creates a prima facie case of obviousness

Nuijten - Signals

- Invention directed to the introduction of "watermarks" into signals, whereby an original signal is manipulated to embed it with additional data which is preferably imperceptible to someone who views or listens to signal; often used to prevent unauthorized copying



PTO Rejects "Signal" Claims

- **Claims to a method for adding a watermark to a signal**
ALLOWED
- **Claims to a storage medium having a watermarked signal stored on it** **ALLOWED**
- **Claims seeking to cover the watermarked signal itself**
REJECTED as non-statutory subject matter

Federal Circuit: "Signal" is Not Statutory

- **Appealed claims include physical but "transitory" forms of signal transmission such as radio broadcasts, electrical signals through a wire, and light pulses through a fiber-optic cable**
- **Panel Majority holds such "transitory" embodiments do not fall within the four statutory categories of 35 U.S.C. § 101**

The Analysis

- **Not A "Process"**
 - "Signal" claim does not recite an act or series of acts
- **Not A "Machine"**
 - "Machine" is "a concrete thing, consisting of parts, or of certain devices and combination of devices." *Burr v. Duryee*, 68 U.S. (1 Wall.) 531 (1863).
 - A transitory signal made of electrical or electromagnetic variances is not made of "parts" or "devices" in any mechanical sense.

The Analysis (cont.)

- **Not A "Manufacture"**

- Articles produced from "raw or prepared materials by giving these materials new forms, qualities, properties, or combinations, whether by hand-labor or by machinery."
Diamond v. Chakrabarty, 447 U.S. 303 (1980).

- A transient electric or electromagnetic transmission is not a tangible article or commodity.

- **Not A "Composition of Matter"**

- "[C]ompositions of two or more substances and all composite articles, whether they be the results of chemical union, or of mechanical mixture, or whether they be gases, fluids, powders or solids." *Diamond v. Chakrabarty*.

- A signal is not a chemical union, nor a gas, fluid, powder or solid.

Judge Linn Dissents . . .

- A "signal" comes within the contemplated definition of "manufacture"
- Supreme Court's definition of manufacture did not limit the term to non-transitory, tangible things
- The claimed signal includes "some physical carrier of information," so some input "material" (e.g., a pulse of energy) has been given a new form, quality, or property by direct human interaction or a machine

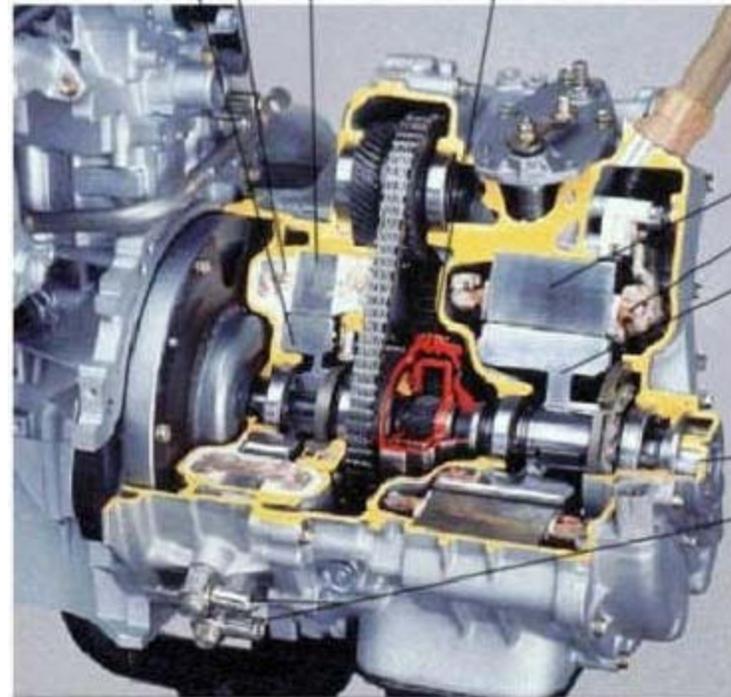


Paice LLC v. Toyota Motor Corp.

504 F.3d 1293 (Fed. Cir. 2007)

Paice - Future Royalty Accounting

- Paice sued Toyota for infringement of patented hybrid electric drive train.
- Jury found Toyota liable under the doctrine of equivalents and awarded \$25* per infringing car previously sold.



* Note that the **base prices** are \$21,100 for a Prius and \$42,600 for a Lexus RX 400h.

No Injunction to Stop Toyota



- Paice was denied a permanent injunction as *eBay* test was not satisfied.
- The parties did not negotiate a royalty for ongoing activities.
- Instead, District Court sua sponte imposed an **"ongoing royalty"** of \$25 per vehicle for the patent life.

Federal Circuit OKs "Ongoing Royalty"

- A "compulsory license" would allow anyone to use the invention; this royalty is only for these defendants.
- Where a "permanent injunction is not warranted, the district court **may** wish to allow the parties to negotiate a license [for ongoing use]" and assess an "ongoing royalty."
- Limited remand here for the district court to provide **reasons** for the **amount** of royalty.
- No 7th Amendment right to jury: this is not "damages."

Side Stepping Statutory Authority

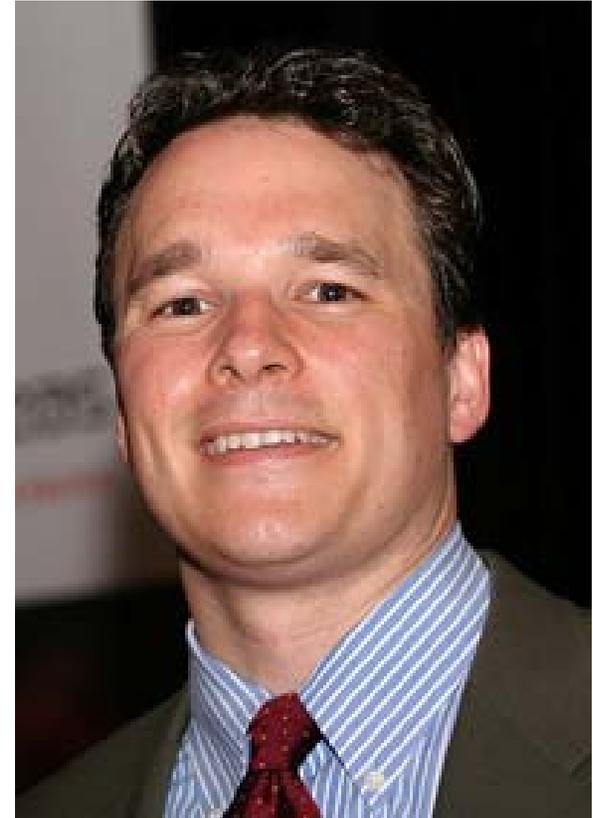
- Is "an order **permitting** use of a patented invention in exchange for a royalty [] properly characterized as **preventing** the violation of the [patent] rights?"
- Opinion cites *Shatterproof Glass* (Fed. Cir. 1985), but acknowledges that the parties there did not dispute the district court's authority.
 - Here, Paice did challenge this authority.
- Opinion cites *US v. Glaxo* (1973), but quotes refer to remedies where patents are used to violate antitrust laws.
 - Here, there were no antitrust allegations.

Tafas v. Dudas

511 F.Supp.2d 652 (E.D. Va. Oct. 31, 2007)

PTO Rules to Take Effect Nov. 1, 2007

- **Final Rules 78 and 114** -- Limit the number of Continuation and CIP applications that may be filed as a matter of right
- **Final Rules 74 and 265** -- Limits the number of independent claims to 5 and the total number of claims to 25 in any application without an "Examination Support Document" (ESD)
- **Applicable to all applications Filed after November 1, 2007, or any application that has not received a 1st Office Action on the merits as of that date.**



District Court Puts on the Brakes



- **Likelihood of Success shown on claims that:**
 - The PTO lacked Congressional authority to promulgate substantive rules
 - 35 USC 120 did not permit any limit on the number of continuations that may be filed
 - The rules could not be applied with retroactive effect to pending applications
 - Rule 265 relating to ESDs is unconstitutionally vague because it fails to provide boundaries on the scope of the search required to comply.

Implications of Tafas . . .

Stay Tuned !!

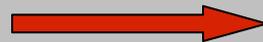
- **Patent Reform moving through Senate**
- **Tafas and the fate of the new PTO Rules**
- **More Supreme Court decisions
(LG v. Quanta on the exhaustion doctrine)**

More Patent Reform from the Bench?

ISSUE

RESOLUTION

Junk patents



KSR v. Teleflex

Fear of injunctions



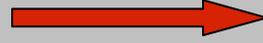
eBay v. MercExchange

Treble damages



In re Seagate

Worldwide damages



AT&T v. Microsoft

Double dipping



LG v. Quanta

Divided infringement



Paymentech



2007 A Big Year for Patent Law

Bart Showalter
January 29, 2008



WASHINGTON
AUSTIN DALLAS
HOUSTON NEW YORK

LONDON

MOSCOW

RIYADH DUBAI

BEIJING

HONG KONG

BAKER BOTTS  LLP

