

Federal Circuit Year in Review

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In re Bilski

- CAFC - machine-or- transformation test is sole test of patent eligibility for processes
- Supreme Court - machine-or-transformation test is not sole test
- Section 101 does not exclude business methods
- No further definition of what processes are patentable

INEQUITABLE CONDUCT

Inequitable Conduct

- Habit of charging inequitable conduct has become an “absolute plague”
 - *Burlington Indus., Inc. v. Dayco Corp.*
- “[W]ith inequitable conduct charged in almost every case in litigation, judges came to believe that every inventor and every patent attorney wallowed in sharp practice”
 - *Ferring B.V. v. Barr Laboratories, Inc.* – Judge Newman dissenting

Larson v. Aluminart (Linn, J. concurring)

- CAFC precedent perpetuates the “plague”
- Ease of pleading, but not dismissal, is CAFC’s own making
 - Supreme Court decisions involved overt fraud
 - *Kingsdown* required more than gross negligence

Larson v. Aluminart (Linn, J. concurring)

- CAFC standard permits inference of deceptive intent when
 - Highly material information is withheld
 - Applicant knew of information and knew/should have known of materiality
 - Applicant has not provided credible explanation for withholding

Larson v. Aluminart (Linn, J. concurring)

- Highly material information is withheld
 - Repeats materiality requirement
 - Inconsistent with principle that materiality and intent are separate elements
- Applicant knew of information and knew/should have known of materiality
 - Negligence standard rejected by *Kingsdown*
 - If highly material, leads fact-finder to concluded that applicant should have known

Larson v. Aluminart (Linn, J. concurring)

- Applicant has not provided credible explanation for withholding
 - Effectively shifts burden of proof to patentee to prove a negative
 - Effectively shifts burden of proof to patentee to prove a negative

Exergen Corp. v. Wal-Mart Stores, Inc.

- Rule 9(b) requires identification of specific who, what, when, where, and how
- pleadings must allege facts to reasonably infer requisite state of mind:
 - (1) knowledge of withheld material information or of falsity of material misrepresentation, and
 - (2) specific intent to deceive PTO

Avid Identification Sys., Inc. v. The Crystal Import Corp.

- precursor product disclosed at trade show highly material to patentability
- to have a duty to disclose information to PTO, individual must
 - (1) be associated with filing and prosecution of patent application such that he owes a duty of candor to PTO, and
 - (2) know that information in question is material

***Avid Identification Sys., Inc. v.
The Crystal Import Corp., cont.***

- “substantively involved”
 - content of application or
 - decisions related to content of app
 - not wholly administrative or secretarial in nature
- Court should consider
 - nature of individual’s position
 - size of company
 - relationship with patent inventors

***Golden Hour Data Sys., Inc. v.
emsCharts, Inc.***

- Did prosecution counsel commit inequitable conduct by failing to disclose undated brochure showing prior art?
- Is the act of selectively disclosing information from brochure inequitable conduct?

*Golden Hour Data Sys., Inc. v.
emsCharts, Inc., cont.*

- MPEP section 609 instructs examiners not to consider references included in an IDS which do are not “identified by publisher, author (if any), title, relevant pages of the publication, *date*, and place of publication.”

*Golden Hour Data Sys., Inc. v.
emsCharts, Inc., cont.*

- MPEP does not limit IDS to submission of prior art references
- information may be material even if it does not qualify as prior art
- brochure was material because it contradicted other representations to PTO
- remanded to the district court to make detailed findings about whether decision to withhold was deliberate

*Therasense, Inc. v.
Becton Dickinson & Co.*

- Invention is membraneless glucose sensor
- Prior art: “optionally, but preferably . . . protective membrane” is included

*Therasense, Inc. v.
Becton Dickinson & Co.*

- Representation to USPTO
 - “optionally, but preferably” language should not be taken at face value
 - Technical expert declares that prior art would require a protective membrane when used with whole blood
 - Patent attorney argues that PHOSITA would read “optionally by preferably” not as technical teaching but “mere patent phraseology”

*Therasense, Inc. v.
Becton Dickinson & Co.*

- Representation to EPO
 - “It is submitted that this disclosure is *unequivocally clear*. The protective membrane is optional, however, it is preferred when used on live blood.” (emphasis added)

*Therasense, Inc. v.
Becton Dickinson & Co.*

- District court finds 2 contradictions
 - “unequivocally clear” vs. “patent phraseology”
 - Membranes required vs. optional
- CAFC panel (Judges Dyk and Friedman)
 - District court finding
 - ◆ “is not clearly erroneous”
 - ◆ “clearly correct”

*Therasense, Inc. v.
Becton Dickinson & Co.*

- CAFC requested briefing on six questions:
 1. Should the materiality-intent-balancing framework for inequitable conduct be modified or replaced?
 2. If so, how? In particular, should the standard be tied directly to fraud or unclean hands? If so, what is the appropriate standard for fraud or unclean hands?
 3. What is the proper standard for materiality? What role should the United States Patent and Trademark Office's rules play in defining materiality? Should a finding of materiality require that but for the alleged misconduct, one or more claims would not have issued?

*Therasense, Inc. v.
Becton Dickinson & Co., cont.*

4. Under what circumstances is it proper to infer intent from materiality?
5. Should the balancing inquiry (balancing materiality and intent) be abandoned?
6. Whether the standards for materiality and intent in other federal agency contexts or at common law shed light on the appropriate standards to be applied in the patent context.

STANDING

Bd. of Trustees of Stanford University v. Roche Molecular Sys., Inc.

- Conflicting written agreements:
 - Copyright and Patent Agreement - researcher “agrees to assign” inventions to Stanford
 - Visitor's Confidentiality Agreement - researcher “will assign and do[es] hereby assign to CETUS”

***Bd. of Trustees of Stanford University v. Roche
Molecular Sys., Inc., cont'd***

- “agree to assign” reflects mere promise to assign rights in the future, not immediate transfer of expectant interests
- “do hereby assign” effects a present assignment of future inventions
- Make clear to researchers that they must obtain approvals for all collaborations to allow research organization to negotiate with potential collaborators

AsymmetRx, Inc. v. Biocare Med., LLC

- Harvard license with Biocare to make, use, and sell p63 antibodies
- Harvard license with AsymmetRx granting exclusive commercial license to '227 patent and license to use p63 antibodies

AsymmetRx, cont.

- For license, grantor must retain substantial rights:
 - right to sue / right to participate in litigation / right to control litigation
 - sublicensing rights / veto right
 - right to practice the patent
 - right to collect portion of the proceeds of litigation
 - obligation to pay maintenance fees

Alfred E. Mann Foundation v. Cochlear Corp.

- Applies analysis similar to *AsymmetRx* to situation where Licensor rather than Licensee sues for infringement
- Suggests that joinder under Rule 19 may be required

Enovsys LLC v. Nextel Comm'ns, Inc.

- Sprint Nextel argued that Enovsys is not sole owner of patents and failed to join other owner, the ex-wife of the manager of Enovsys and one of the patents' co-inventors
- Manager and wife filed for divorce in California, where all assets acquired during marriage are presumptively community property
- divorce petition - "We have no community assets or liabilities"

Enovsys LLC v. Nextel Comm'ns, Inc., cont'd

- Before divorce, patents presumptively community property in which wife had ½ interest
- Presumption overcome by declaration "we have no community assets or liabilities"
- California court entered judgment of dissolution
- Court's judgment entitled to res judicata effect
- Pursuant to divorce decree, wife retained no property rights in patents, so Enovsys had standing

Transcore, LP v. Electronic Transaction Consultants Corp.

- Unconditional covenant not to sue and release of all existing claims as to Mark IV in prior litigation
- Did not apply to patents not specified or future patents
- ETC installs Mark IV product and is sued by Transcore for infringement

Transcore, LP v. Electronic Transaction Consultants Corp., cont'd

- Covenant not to sue is “authorization” under exhaustion doctrine
- Covenant not to sued may bar patent owner from bringing infringement claims for other patents
- Courts look to the scope of patents rather than the language of covenant

INHERENCY

King Pharmaceuticals, Inc. v. EON Labs, Inc.

- Invention: muscle relaxant called Skelaxin (metaxalone)
- a method of increasing the bioavailability of metaxalone by administering with food
- Additional limitation of “informing” the patient of increased bioavailability of metaxalone with food

King Pharmaceuticals, cont.

- claiming a new benefit of an old process does not render the process patentable
- natural result of taking metaxalone with food was an increase in bioavailability of the drug
- prior art disclosed taking metaxalone with food for different purpose (to avoid nausea)
- increase in metaxalone's bioavailability was an inherent aspect of the prior art and was inherently anticipated

King Pharmaceuticals, cont.

- “informing”
- District court invalidated claims as unpatentable methods under § 101
- CAFC says case is not proper vehicle to determine whether invalid under § 101
- Ignores claim as a whole and focuses on a single limitation

King Pharmaceuticals, cont.

- “The ‘informing’ limitation adds no novelty to the method, which is otherwise anticipated by the prior art.”
- “Informing a patient about the benefits of a drug in no way transforms the process of taking the drug with food. Irrespective of whether the patent is informed about the benefits, the actual method, taking metaxalone with food, is the same.”

OBVIOUSNESS

Wyers v. Master Lock Co.

- patents covered hitch pin locks that secured trailers to cars and sport utility vehicles
- use of a lock in a trailer hitch receiver was well known in the art prior to the patents, but the patents-in-suit claim improvements to the prior art locks.

Wyers, cont.

- Familiar items may have obvious uses beyond their primary purposes
- Person of ordinary skill often will be able to fit the teachings of multiple patents together like pieces of a puzzle
- Courts should take “expansive and flexible approach” in determining whether a patented invention was obvious at the time it was made

Wyers, cont.

- Courts should use common sense
- Common sense that the sleeve used in towing patents could be combined with barbell-shaped hitch pin lock to address problem of different aperture sizes in standard hitch receivers

MISMATCHING

Forest Group, Inc. v. Bon Tool Company

- Intent to deceive, is requirement for false marking
- Considerations for intent to deceive:
 - belief that patents are correctly marked
 - knowledge of patent law
 - background considerations

Bon Tool, cont.

- Plain language of the statute requires mismarking penalty to be imposed on a per article basis
- Injuries occur each time an article is falsely marked

Pequinot v. Solo Cup Co.

- Expired patents
- “may be covered” packaging
- Article covered by now-expired patent is “unpatented”
- Same public policies apply to falsely marked products with inapplicable patent numbers and expired patent numbers

Solo Cup, cont.

- False marking statute also requires that marker act “for the purpose of deceiving the public”
- Combination of a false statement and knowledge that statement was false creates a rebuttable presumption of intent to deceive
- Bar for proving deceptive intent is high
 - purpose of deceit, rather than simply knowledge that statement is false, is required

Solo Cup, cont.

- Presumption of intent to deceive weaker when expired patents are at issue
- Good faith belief that an action is appropriate can negate inference of a purpose of deceiving the public

Stauffer v. Brooks Brothers

- Brooks Brothers bow ties marked with expired patents
- Stauffer is a patent attorney who purchased some of the marked bow ties and then brought qui tam action
- Brooks Brothers moved to dismiss for lack of standing

Brooks Brothers, cont.

- Must allege that U.S. suffered injury in fact causally connected to Brooks Brothers' conduct
- By enacting section 292, Congress defined an injury in fact because a violation of that statute inherently constitutes injury to U.S.
- Stauffer's standing arose from his status as "any person"

REASONABLE ROYALTIES

35 U.S.C.A. § 284

- “award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court.”
- “court may receive expert testimony as an aid to the determination of damages or of what royalty would be reasonable”

Lucent Techs. v. Gateway, Inc.

- Jury awarded \$357,693,056.18 in damages for patent infringement
- Patented device was small component of larger product

Lucent, cont.

- *Georgia-Pacific* factors:
 - established royalty rate for patent-in-suit
 - royalties for comparable patents
 - nature and scope of use of patented invention
 - licensing policies of licensor
 - commercial relationship between licensor and licensee
 - established profitability of patented product
 - advantages and utility of patented invention

Resqnet.com, Inc. v. Lansa, Inc.

- District court awarded damages of \$506,305 for past infringement based on a 12.5% hypothetical royalty

Resqnet, cont.

- Reasonable royalty analysis requires court to hypothesize, not speculate
- Trial court must carefully tie proof of damages to the claimed invention's footprint in the market place

Resqnet, cont.

- Best evidence of reasonable royalty are royalty rates specified in prior licenses
- Licenses relating to other patents that relate to similar technology *may* be considered
- As dissent in *ResQNet* noted, Federal Circuit still undecided about what types of licenses and other evidence to consider

Wordtech Sys. Inc. v. Integrated Network Solutions, Inc.

- Jury awarded \$250,000 in damages, a 26.3% royalty on the total alleged sales
 - Plaintiffs only asked for a 12% royalty
- After trial, the district court found the case "exceptional" and awarded treble damages, attorneys' fees, interest, and costs

Wordtech, cont.

- Problems with lump-sum royalty:
 - jury had awarded a lump-sum royalty but of thirteen sample licenses, only two were lump-sum agreements
 - the two lump-sum licenses provided no basis for comparison because neither license described how the parties calculated each lump sum, the licensees' intended products, or how many products each licensee expected to produce.

Wordtech, cont.

- Problems with running royalties:
 - Running royalty licenses had no basis for comparison
 - ◆ One license listed per-unit fees of \$100-195 while verdict reflected per-unit fee that exceeded \$4400
 - ◆ Other licenses stated royalty rates of 3-6% of the licensees' sales-- far less than the 26.3% rate that the jury awarded
- Overall, court found that damages arguments amounted to “pattern of guesswork” and remanded for a new trial on damages

QUESTIONS?