

WIPLA 2010 INTELLECTUAL PROPERTY LAW UPDATE:

OBTAINING AND LITIGATING COMPUTER AND SOFTWARE PATENTS

A REVIEW OF IMPORTANT TRADEMARK CASES

AGENDA

- Patent Prosecution Developments
- Patent Litigation Developments
- Trademark Developments

Patent Prosecution Developments

**Validity and other issues under 35
U.S. C. §§ 101, 102, 103, 112, et al**

■ Patentable Subject Matter

Bilski v. Kappos

A method for managing the consumption risk costs of a commodity sold by a commodity provider at a fixed price comprising the steps of:

- Initiating a series of transactions between said commodity provider and consumers of said commodity wherein said consumers purchase said commodity at a fixed price based upon historical averages, said fixed rate corresponding to a risk position of said consumer;
- Identifying market participants for said commodity having a counter-risk to said consumers; and
- Initiating a series of transactions between said commodity provider and said market participants at a second fixed rate such that said series of market participant transactions balance the risk position of said series of consumer transactions.

Bilski v. Kappos (Federal Circuit)

A patentee may show that a process claim satisfies section 101 by:

- Tying the claim to a particular machine, or
- Having the claim transform a physical article into a different state or thing
- The useful, concrete, and tangible result test should not be relied on.
 - Transforming legal obligations, relationships, business risks, or other such abstractions cannot meet the test because there is no physical object

Bilski v. Kappos – SC oral arguments

Justices expressed strong skepticism about patent eligibility of pure business methods (e.g., Bilski type claims)

- Prior cases that gave expansive § 101 reading (e.g., J.E.M. Ag. Supply) relied heavily on congressional intent
- Congressional intent arguments did not appear to get traction during oral argument
 - § 273 barely mentioned
- Significant questioning appeared to focus on whether “useful arts” in the constitution encompasses business methods
 - Scalia: Horse whispering
 - Breyer: Methods of teaching
 - Ginsberg: Tax & estate planning
 - Kennedy: Insurance
 - Roberts: Alphabets
 - Sotomayor: Speed dating

Bilski v. Kappos – oral arguments

Possible outcomes:

- Reversal seems unlikely (little apparent support for Bilski claims)
- Core unanimous decision, narrow grounds
- Core unanimous decision, several concurrences stating different views of patent-eligibility

Bilski – Practical Implications

- Invalidity challenges
 - Question of law; appropriate for SJ motion
 - Reissue (Reexamination not available - MPEP § 2258)
- Impact at the Board of Patent Appeals and Interferences
- Preparation of new patent applications
 - Specification and Claim drafting
- Bilski Audit
 - Patent valuation
 - Risk avoidance

Bilski – Practical Implications

- USPTO February 23, 2010 Notice
 - Utilizing the claim term “non-transitory” does not typically raise new matter issues.
 - http://www.uspto.gov/patents/law/notices/101_crm_20100127.pdf.
- Define Module/Engines/Etc. in Specification
- Include Algorithms/Flow Charts/Etc. in Specification

■ Patent Drafting - Specification

Edwards Lifesciences v. Cook

Three Application Drafting Mistakes:

- Terms used interchangeably:
 - graft, graft structure, interluminal graft, bifurcated base graft structure, etc.
- Referred to “interluminal graft” embodiment as “the invention”
- Background distinguished/disparaged prior art
 - Prior art “resilient” versus invention “malleable” wires

Edwards Lifesciences v. Cook

- Court construed claim terms as group, because used interchangeably in spec.
- Prosecution amendment broadened “interluminal graft” to just “graft”
- Written description examples/embodiments negated the broadening amendment
 - “Graft” was construed to “interluminal graft”
 - *Cf.* Kara Tech. (broad construction)

Edwards Lifesciences v. Cook

- ‘No-recapture’ exception to Doctrine of Equivalents was triggered by disparaging prior art in the Background
 - Disparagement of prior art was found to be a “disavowal” of scope
 - citing Honeywell

Edwards Lifesciences v. Cook

- Lessons and Learning Points:
 - Specification drafters should distinguish prior art with caution (or not at all)
 - Drafters should clearly differentiate the terms in the specification
 - Use “the invention” with caution (or not at all), even in the field of art portion of the Background

■ Patent Drafting - Claims

■ Means Plus Function Claims

Blackboard v. Desire2Learn

- Blackboard patent claims Internet-based educational support system and methods
- Claim construction - District Court held claims 1-35 invalid for indefiniteness

Blackboard v. Desire2Learn

- Means-Plus-Function Claims
 - Specification must contain adequate disclosure of the structure that corresponds to the claimed function
 - “[W]hen a computer is referenced as support for a function in means-plus-function claim, there must be some explanation of how the computer performs the claimed function”, *Net MoneyIn*
 - Recitation of structure is not sufficient just because a person ordinarily skilled in the art would be able to devise a means to perform the claimed function

Blackboard v. Desire2Learn

- Means-Plus-Function Claims
 - Claim 1 includes means-plus clauses including “means for assigning a level of access and control”
 - CAFC: “Access control manager” in the spec is an abstraction, not description of structure
 - “The ACM is essentially a black box that performs a recited function. But how it does so is left undisclosed”
 - Patent discloses insufficient structure to perform the function of assigning level of access

■ Patent Prosecution Disclaimer

Ecolab v. FMC

- Ecolab and FMC sell chemical mixtures to protect raw meat from pathogens
- Prosecution History Disclaimer
 - In the First Office Action Response, FMC argued that the claims used PPA as the only antimicrobial agent.
 - Ecolab's product use multiple antimicrobial agents.
 - In the next Office Action, the Examiner highlighted that the claims recite “consists essentially of” PPA which does not mean that the claims consist solely of PPA.
 - FMC never utilized the PPA as the only antimicrobial agent argument again.

Ecolab v. FMC

- Prosecution History Disclaimer
 - An isolated statement indicating prosecution history disclaimer may be trumped by “the prosecution history as a whole”
 - FMC’s statements considered in the context of prosecution history as a whole, are not clear and unmistakable enough to invoke doctrine of prosecution history disclaimer

■ Inequitable Conduct

Exergen v. Wal-Mart

- Pleading Inequitable Conduct
 - Rule 9(b) requires
 - Identification of the specific **who, what, when, where,** and **how** of the material misrepresentation or omission committed before the PTO
 - Sufficient underlying facts from which court may reasonably infer that a party had knowledge of the withheld material information and specific intent to deceive the PTO

Exergen v. Wal-Mart

- SAAT proposed pleadings:
 - Exergen did not disclose two patents during prosecution of related application
 - Arguments during prosecution contradictory to statements on Exergen's own web site – Exergen omitted reference to the web site
 - The misrepresentation and omission were material to patentability of '685 patent

Exergen v. Wal-Mart

- CAFC: SAAT proposed pleadings are deficient
 - Scienter: failure to allege facts giving rise to a reasonable inference of scienter, including knowledge and intent
- Mere fact that an applicant disclosed a reference during prosecution of one application, but did not disclose it during prosecution of a related application, is insufficient to meet the threshold level of deceptive intent required to support an allegation of inequitable conduct

Larson v. Aluminart

- Reexamination Proceedings
 - Larson did not disclose 3 prior art items and 2 office actions issued in the prosecution of a continuation application
- Larson Argued
 - 3 prior art references not material because cumulative
 - 2 office actions not material because all of the critical references noted in them already disclosed
- Federal Circuit ruling:
 - 3 withheld prior art items were cumulative, and thus not material
 - 2 withheld Office Actions were material; remanded to determine intent to deceive

Larson v. Aluminart

- Federal Circuit Guidance to District Courts:
 - Material does not presume intent, and nondisclosure, by itself, cannot satisfy the deceptive intent element
 - If intent is inferred, it must be "the single most reasonable inference able to be drawn from the evidence."
 - Intent cannot be inferred based on a decision to withhold if the patentee has plausible legitimate reasons for withholding

Larson v. Aluminart

- Federal Circuit Guidance to District Courts:
 - Good faith on behalf of the applicant militates against a finding of deceptive intent
 - Patentee notified the examiners of the co-pending application.
 - How material were the withheld documents?
 - Determine whether the combined intent and materiality are sufficient to warrant a holding of inequitable conduct.

■ PTO Rules

Wyeth v. Kappos

- § 154(b) – PTA statute
 - “A” delays – one day of PTA for each day PTO does not meet certain examination deadlines
 - E.g., providing a first response to a filed action within 14 months
 - “B” delays – one day of PTA for each day issuance of patent is delayed because PTO failed to issue patent within three years of actual filing date of application

Wyeth v. Kappos

- Example
 - Patent issues 3 years and 10 days after filing.
 - First Office Action dated 14 months and 10 days after filing.
- Old PTA Calculation
 - Determine A days which would be the amount of days the first Office Action was issued after the filing date plus 14 months = 10 days.
 - Determine B days which would be the amount of days after the 3 year anniversary of the filing date = 10 days.
 - Compare the A days to the B days and give the patentee the higher of the two.
- New PTA Calculation
 - Combine the A days and the B days and give the patentee the summation of the two.

Patent Litigation Developments: Enforcement, Remedies, Venue and other issues

Drafting The Complaint: The New Standards

The New Supreme Court Decisions

- The Supreme Court's 2009 decision in *Ashcroft v. Iqbal*, 129 S. Ct. 1937, 1949 (2009) (“*Iqbal*”), which was an expansion of the Supreme Court's decision in *Bell Atlantic Corp. v. Twombly*, 550 U.S. 544, 555 (2007) (“*Twombly*”), significantly raised the standard for pleading in Federal actions.
- As explained in *Iqbal*, 129 S. Ct. at 1949 (citing *Twombly*), while “showing” an entitlement to relief does not require “detailed factual allegations,” it does “demand[] more than an unadorned, the-defendant-unlawfully-harmed-me accusation.” Thus, “[a] pleading that offers ‘labels and conclusions’ or ‘a formulaic recitation of the elements of a cause of action will not do.’” *Id.*

Recent Patent Cases Following *Iqbal*

- *In re Papst Licensing Litigation*, 602 F. Supp. 2d 17 (D.D.C. 2009) (dismissing claim that alleged “the Sanyo Defendants have each infringed and are still infringing the patents”).
- *Desenberg, v. Google, Inc.*, 2009 U.S. Dist. LEXIS 66122 (S.D.N.Y. 2009)(dismissal for: failure to allege, in process infringement, which entity did what step; failure to allege “direction or control”; and failure to allege facts re indirect infringement).
- *Friday Group v. Ticketmaster*, 2008 WL 5233078 (E.D. Mo. 2008) (same).

An Example Of Bad Pleading

- 27. Defendants provide products and services for payment services that fall within one or more claims of the '220 Patent.
- 28. Defendants infringe the Patent-in-Suit directly, contributorily and/or by active inducement by importing, manufacturing, using, marketing, distributing, selling, and/or supporting payment services.
- 29. Defendants have infringed and continue to infringe the '220 patent in this District and elsewhere in the United States by their manufacture, importation, sale, offering for sale, and/or use of payment services without authority or license of LML.
- 30. Defendants have contributorily infringed and/or induced others to infringe and continue to contributorily infringe and/or to induce others to infringe the '220 patent in this District and elsewhere in the United States by their manufacture, importation, sale, offering for sale, and/or use of payment services without authority or license of LML.

Direct Infringement: Joint or Divided Infringement

Muniauction, Inc. v. Thomson Corp.

- Multi-party or Joint Infringement
 - No single party performs every step of asserted method claims
- *BMC v. Paymentech* (Fed. Cir. 2007) – The entire claimed method must be performed by, or at the “control or direction” of (“mastermind”), a single alleged direct infringer
 - Arms-length cooperation is insufficient
 - Think vicarious liability

Muniauction, Inc. v. Thomson Corp.

1. In an electronic auction system including an issuer's computer having a display and at least one bidder's computer having an input device and a display, said bidder's computer being located remotely from said issuer's computer, said computers being coupled to at least one electronic network for communicating data messages between said computers, an electronic auctioning process for auctioning fixed income financial instruments comprising:

inputting data associated with at least one bid for at least one fixed income financial instrument into said bidder's computer via said input device;

automatically computing at least one interest cost value based at least in part on said inputted data, said automatically computed interest cost value specifying a rate representing borrowing cost associated with said at least one fixed income financial instrument;

submitting said bid by transmitting at least some of said inputted data from said bidder's computer over said at least one electronic network; and

Method for conducting original issuer auctions of financial instruments

Bidder performs this step

Auctioneer performs these steps

Muniauction, Inc. v. Thomson Corp.

- Bidder that does inputting was not controlled by the auctioneer to input the data
 - Auctioneer controlling access to its system and instructing bidders on use is not sufficient for direct infringement
- Result: No direct infringement
- Without direct infringement, no indirect infringement

Girafa.com v. IAC Search & Media (D. Del. 2009)

35. A method for presenting Internet information to a user comprising:

providing to a user a visual image of a web page containing at least one hyperlink; and at least partially concurrently

providing a thumbnail visual image of another web page of at least one web site which is represented by said at least one hyperlink via the Internet by employing an image server that stores and provides said thumbnail visual image,

said providing a thumbnail visual image comprising employing a web browser which interfaces via the Internet with a web server, separated from said image server, including visualization functionality, said visualization functionality being operative to embed commands to the web browser to download, via said image server, thumbnail visual images of web pages which represent hyperlinks contained in the web page and to provide to a user, via the web browser, an annotated web page.

Yahoo generally indicated that it did not control the user

← Yahoo argued that it did not provide web browser necessary for infringement

Girafa.com v. IAC Search & Media (D. Del. 2009)

- User did not need to perform any step
- Accused software utilized (separate) web browser in carrying out method
- Result: Denied summary judgment of noninfringement

Direct Infringement: Sale of Software

Ricoh Co., Ltd. v. Quanta Computer, Inc.

- Optical disc drive technology
- Ricoh argued direct infringement based on sale of software that allegedly caused optical drives to perform the claimed methods

Ricoh Co., Ltd. v. Quanta Computer, Inc.

- Software is a set of instructions for hardware to carry out a process
- “[W]e hold that a party that sells or offers to sell software containing instructions to perform a patented method does not infringe the patent under § 271(a).”
- Follows principle that sale of product does not infringe method claim

Indirect Infringement: Proof

Contributory Infringement § 271(c)

(c) Whoever offers to sell or sells within the United States or imports into the United States a component of a patented machine, manufacture, combination, or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial non-infringing use, shall be liable as a contributory infringer.

Ricoh Co., Ltd. v. Quanta Computer, Inc.

- Quanta's optical drives had hardware and software that could perform certain functions without infringing, and also had separate hardware and embedded software modules that allegedly carried out claimed method
- What is considered for "substantial noninfringing use" – whole optical drive or specific component that carries out claimed method?

Ricoh Co., Ltd. v. Quanta Computer, Inc.

- Held: Consider separate hardware and embedded software that performs the claimed method, not the overall drive
- “Quanta should not be permitted to escape liability as a contributory infringer merely by embedding that microcontroller in a larger product with some additional, separable feature before importing and selling it.”

■ Offshore Processes

Cardiac Pacemakers v. St. Jude Medical

- Cardiac Pacemakers sued St. Jude for infringement of implantable cardioverter defibrillator claim
- District Court held that § 271 applies to method claims and hence permits damages on devices exported where the claimed method is carried out in foreign countries

Cardiac Pacemakers v. St. Jude Medical

- § 271(f) – imposes liability upon anyone who “supplies or causes to be supplied in or from the United States” components of a patented invention and induces their combination in manner that would infringe patent if done in the U.S.
- Fed. Cir. held methods are not subject to § 271 because their components (method steps) cannot be “supplied”
 - Shipment of devices outside U.S. did not infringe method patent
- Overturned prior 2006 *Union Carbide* panel decision

■ Settlement Agreements

TransCore v. Electronic Transaction Consultants

- 2000 – TransCore sued competitor Mark IV for patent infringement
 - Settled; Mark IV paid \$4.5M in exchange for unconditional covenant not to sue
- Later, ETC won bid to install open-road toll system in IL; agreed to set up and test systems purchased by IL from Mark IV
- TransCore sued for infringement of three patents that previously had been in 2000 suit with Mark IV and one related patent that was pending at USPTO but had not yet issued at time of settlement
 - Summary judgment – TransCore’s claims barred by patent exhaustion
 - Issue on Appeal: Patent exhaustion based on covenant not to sue

TransCore v. Electronic Transaction Consultants

- Fed. Cir. affirmed holding of district court
- Three patents subject to settlement agreement – patent exhaustion
 - Supreme Court *Quanta* decision led to conclusion that unconditional covenant not to sue authorizes sales by covenantee for purposes of patent exhaustion
 - Has same effect as unconditional “license”
 - Patent license is essentially covenant not to sue for patent infringement

TransCore v. Electronic Transaction Consultants

- Legal estoppel prevents situation where patentee has licensed right, received consideration, and seeks to derogate from the right granted
- Covenant not to sue subject to exhaustion
- Implied license extends to later-issued patent that is necessary to practice the covenanted or licensed patent
 - Even if covenant expressly states that it does not extend to other or later-issued patents
 - Even if implied license is contractually disclaimed.

■ Trial Procedure

Transferring Venue from ED Texas

- Venue transfers governed by 28 U.S.C. § 1404(a):

For the convenience of parties and witnesses, in the interest of justice, a district court may transfer any civil action to another district court or division where it might have been brought.
- Balance public and private factors

Transferring Venue from ED Texas

- Private:
 - Relative ease of access to sources of proof;
 - Availability of compulsory process to secure the attendance of witnesses;
 - Cost of attendance for willing witnesses; and
 - All other practical problems that make a trial easy, expeditious and inexpensive.
- Public:
 - Administrative difficulties flowing from court congestion;
 - Local interest in having localized interests decided at home;
 - Familiarity of the forum with the law that will govern the case;
 - Avoidance of unnecessary problems of conflicts of laws or in the application of foreign law.

**Piper Aircraft Co. v. Reyno*, 454 U.S. 235, 241 n.6 (1981).

Transferring Venue from ED Texas

- Traditionally very difficult to win transfer, but significant shift over past 18 months
 1. *In re Volkswagen AG*
 - Automobile products-liability case - 5th Cir. granted mandamus and transferred to N.D. Texas, overruling J. Ward denial
 2. *In re TS Tech United States Corp.*,
 - Transfer favored when the bulk of the physical evidence and documents is located near the transferee venue
 - Relative inconvenience to witnesses increases directly with the additional distance to be traveled
 - When a defendant sells products all over the country, no specific venue has a dominant interest in resolving the issue of patent infringement

Transferring Venue from ED Texas

- As a result of *TS Tech*, the E.D. of Texas began transferring about half of the contested transfer motions

- Transfers were limited to those cases where:
 - No connections to Texas, and

 - Proven “regional” nature of case in transferee venue (*i.e.*, parties and witnesses not spread out across the country or world, but located in transferee venue)

Transferring Venue from ED Texas

3. *In re Genentech* (Fed. Cir. May 2009) – transfer factors

- Relative ease of transmitting documents electronically does not render superfluous the “ease of access to sources of proof” factor
- Transferee venue has subpoena power over at least some potential witnesses, while none are in E.D. Texas
- Transferee venue need not be more convenient for all witnesses, and foreign witnesses will be inconvenienced about equally regardless of venue
- Courts should not consider unrelated suits previously filed in the E.D. Texas by the party requesting a transfer
- “Court congestion” cannot alone outweigh those other factors favoring transfer

Transferring Venue from ED Texas

4. *In re Hoffmann-La Roche* (Fed. Cir. Dec. 2009)

- Federal Circuit granted mandamus request after Judge Folsom twice denied transfer
- Favor transfer where the transferee venue has absolute subpoena power over multiple witnesses and E.D. Texas has only partial subpoena power
- Transferee venue connection to the underlying events (e.g., location of the accused product development) favors transfer
- Regarding "convenience to the parties", CAFC not persuaded by plaintiff's transfer of 75,000 pages of documents to local counsel in Texas prior to filing suit.
- Federal Circuit considered plaintiff's acts a "**fiction**" designed to manufacture and support venue in ED Texas.

Transferring Venue from ED Texas

- Changing landscape
 - Original transfer analyses focused on whether the case had a “regional” connection to the transferee forum
 - Fed. Cir. appears to be shifting towards test of whether the case has any connection to E.D. Texas
 - If no connection to E.D. Texas, then transfer should be possible to another forum that is more convenient overall

Transferring Venue from ED Texas

- Observed plaintiff tactics to obtain venue in E.D. Texas
 - Transfer documents to office within E.D. Texas ahead of filing suit
 - Incorporate LLC in E.D. Texas to hold patents
 - Name Texas-based defendants to the extent possible

Transferring Venue from ED Texas

5. *Balthaser Online v. Network Solutions, et al.*, case no. 2:08-cv-430 (ED Tex. Sept. 2009)

- Original complaint filed in 2008, but amended in Jan. 2009 to add Texas-based defendants (among others)
- Original defendants moved to transfer to California, where plaintiff and most of defendants were located
- The added Texas-based defendants were either defunct, or unable to afford representation (defendants alleged that plaintiff's counsel drafted answers, and affidavits opposing transfer for them)
- Judge Folsom severed the case, transferred the non-Texas entities, and left the Texas entities in E.D. Texas

Transferring Venue from ED Texas

- “Take-aways” - Defendants may consider:
 - What are the ties to E.D. Texas?
 - What other venue satisfies the most factors?
 - Must identify location of documents and other evidence
 - Must identify locations of potential witnesses and parties
 - Could suit have been brought in the transferee venue in the first place?
 - Have the asserted patents already been litigated in E.D. Texas? Judicial economy remains important
 - Possibly seek severance?

Trademark Case Developments

In re Bose Corp.

- Changed the standard for cancellation of marks due to fraud in the trademark application.
- A third party may petition to cancel a registered trademark on the ground that the registration was obtained fraudulently.
- Bose initiated an opposition against the HEXAWAVE trademark alleging likelihood of confusion with Bose's prior registered trademarks, including WAVE.
- Hexawave counterclaimed for cancellation of Bose's WAVE mark, asserting that Bose committed fraud in its registration renewal application by claiming use on all goods in the registration while knowing that it had stopped manufacturing and selling certain goods.

In re Bose Corp.

- Trademark Trial and Appeals Board (“TTAB”) cancelled the WAVE registration based on a finding of fraud utilizing the objective “should have known” standard in *Medinol v. Neuro Vasx*.
- The federal Circuit reversed the TTAB’s decision and clarified that the standard for fraud requires a willful intent to deceive and that proof of subjective intent to deceive is an indispensible element which must be established by clear and convincing evidence.

Zino Davidoff SA v. CVS

- Removing UPC data from products can result in trademark infringement.
- Zino Davidoff SA sued CVS for trademark infringement based on the removal of UPC data from COOLWATER fragrances.
- The second circuit found that the removal of the UPCs from the product altered the product and interfered with the trademark's owner's ability to control the quality of its goods, stating:
 - Goods are not genuine if they do not conform to the trademark owner's quality control standards or if they differ materially from product authorized by the trademark holder.
 - Trademarked goods whose luxury packaging is damaged are materially different from those whose packaging is intact.

Questions?

CONTACT INFORMATION

- Stephen Eisenmann
 - 414.297.5811
 - seisenmann@foley.com