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Collected Writings of Banner & Witcoff in 2014

*In re Giannelli*, 739 F.3d 1375 (Fed. Cir. 2014). In an appeal from the U.S. PTO’s Patent Trial and Appeal Board (PTAB) which affirmed a patent examiner’s rejection of claims directed to a rowing machine as obvious over a chest press exercise machine. At issue was the meaning of the claim phrase “first handle portion *adapted to be moved* from a first position to a second position by a pulling force . . . in a rowing motion.” The PTAB interpreted this language to be merely an intended use for the claimed machine, and held that the chest press machine could be used in the manner claimed. The Federal Circuit reversed, explaining that “the phrase ‘adapted to’ is frequently used to mean ‘made to,’ ‘designed to,’ or ‘configured to’ . . . . Although the phrase can also mean ‘capable of’ or ‘suitable for,’ here the written description makes clear that ‘adapted to’ . . . has a narrower meaning, viz., that the claimed machine is designed or constructed to be used as a rowing machine whereby a pulling force is exerted on the handles.” The Federal Circuit concluded that “there is no question that the ‘447 patent does not have handles that are adapted to be pulled in a rowing motion.” **Note:** This case may be helpful to rebut recent U.S. PTO patent examiners and PTAB decisions that dismiss “configured to” or “adapted to” language in patent claims as having “no patentable weight.”

*EnOcean GmbH v. Face Int’l Corp.*, 742 F.3d 955 (Fed. Cir. 2014). The Federal Circuit reversed the PTO’s determination that claims reciting “a signal *receiver for receiving* a first electromagnetic signal” and “a *receiver adapted to receiving*” should be interpreted to be means-plus-function clauses. According to the Federal Circuit, the term “receiver” “presumptively connotes sufficiently definite structure to those of skill in the art” (citing *Personalized Media Communications v. Int’l Trade Comm’n*, 161 F.3d 696, 703-04 (Fed. Cir. 1998)). The Federal Circuit also explained that merely because the disputed term is not limited to a single structure does not disqualify it as a corresponding structure, as long as the class of structures is identifiable by a person of ordinary skill in the art. The court also concluded that the mere mention of a “receiver” in the priority document provided sufficient support for the later-claimed “receiver.” “Since the inventors did not invent the receiver, and the Board found that the structure was well known as of the filing date, the inventors were not obliged . . . to describe . . . the particular appendage to which the improvement refers, nor its mode of connection with the principal machine.”

*Williamson v. Citrix Online, LLC*, 770 F.3d 1371, 2014 WL 5649886 (Fed. Cir. Nov. 5, 2014). The Federal Circuit held that the claimed recitation “distributed learning control module for receiving communications” was not a means-plus-function limitation. Instead, reaching for dictionaries that neither party had introduced into evidence, the Federal Circuit held that the term “module” “has understood dictionary meanings as connoting either hardware or software structure to those skilled in the computer arts.”

## 2. **Disclaimer of Claim Scope**

*Golden Bridge Technology, Inc. v. Apple Inc.*, 758 F.3d 1362 (Fed. Cir. 2014).

Golden Bridge sued Apple for infringing patents relating to a communication system. Golden Bridge had previously asserted one of the patents against another defendant, and the parties in that earlier litigation had stipulated to the meaning of certain claim terminology (the meaning of the word “preamble”). While an appeal from that earlier litigation was pending, Golden Bridge had also filed a continuation application and defended a reexamination of the asserted patent in the U.S. PTO. In both the continuation application and the reexamination, Golden Bridge submitted an Information Disclosure Statement (IDS) that included the claim construction order from the earlier litigation including the stipulated definition of the claim term “preamble.” In this lawsuit, the district court relied on the claim term definition contained in the IDS and granted summary judgment in favor of Apple. The Federal Circuit affirmed, concluding that Golden Bridge’s submissions “during prosecution of its stipulated construction for the term preamble constitute disclaimer. Although we generally construed terms according to their plain and ordinary meanings to one of ordinary skill in the art, we depart from that meaning where there is disclaimer.” According to the court, “it would have been natural for both the PTO and the public to rely upon the stipulation in determining the scope of the claimed invention.”

*X2Y Attenuators, LLC v. International Trade Comm’n*, 757 F.3d 1358 (Fed. Cir. 2014). The Federal Circuit held that a patent owner disavowed claim scope because the patent specification referred to a feature as “universal to all the embodiments” and as “an essential element among all embodiments or connotations of the invention.” Even though some of the statements were contained in priority documents, those priority documents were incorporated by reference into the patent, and thus the incorporated patents were “effectively part of the host [patents] as if [they] were explicitly contained therein.”

### **3. Induced Infringement Requires Evidence of Direct Infringement**

*Limelight Networks, Inc. v. Akamai Technologies*, 134 S.Ct. 2111 (2014). M.I.T. owns a patent that claims a method of delivering electronic data using a content delivery network. Akamai, the exclusive licensee of the patent, contracts with website owners to improve content delivery by designating certain components of the web site to be stored on Akamai’s servers in a process known as “tagging.” By serving the content from different servers, Akamai is able to increase the speed with which Internet users access the content on the websites. Limelight networks also carries out several steps of the patented method, but instead of tagging those components of the websites that are stored on its servers as claimed, Limelight requires its customers to do their own “tagging.”

In 2006, Akamai sued Limelight for patent infringement, and a jury awarded \$40 million in damages. After the jury verdict, the Federal Circuit decided another case, *Muniauction, Inc. v. Thomson Corp.*, 532 F.3d 1318 (Fed. Cir. 2008), which held that a party could only be liable for infringement if a single entity performed all of the claimed method steps, or if a single defendant “exercises control or direction” over the entire process such that every step is attributable to the controlling party.

Because the defendant in *Muniauction* did not exercise control or direction over its customers' performance of the steps, no infringement could be found. In light of *Muniauction*, the district court granted Limelight's motion to set aside the verdict on the basis that no direct infringement existed, and because Limelight did not control or direct its customer's "tagging" operation, no infringement could be found.

The Federal Circuit initially affirmed, concluding that a defendant that does not itself perform all of the steps of a patented method can be eligible for direct infringement only "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." Because Limelight did not have control over its customers, the customer's tagging operations could not be attributed to Limelight.

The Federal Circuit reheard the *Limelight* case en banc and reversed. The en banc court did not revisit its direct infringement case law, but instead concluded that "the evidence could support a judgment in Akamai's favor on a theory of induced infringement" under 35 U.S.C. § 271(b). This was true, according to the Federal Circuit, because liability for induced infringement arises when a defendant carries out some steps constituting a method patent and encourages others to carry out the remaining steps, even if no one would be liable as a direct infringer.

The Supreme Court reversed and remanded, beginning with the proposition that there can be no liability for induced infringement unless there is direct infringement. Justice Alito blasted the Federal Circuit, stating that "The Federal Circuit's analysis fundamentally misunderstands what it means to infringe a method patent. A method patent claims a number of steps; under this Court's case law, the patent is not infringed unless all the steps are carried out." The Court explained that "where there has been no direct infringement, there can be no inducement of infringement under § 271(b)." The Court rejected the analogy that tort law imposes liability on a defendant who harms another through a third party, even if that third party would not himself be liable. "Because Limelight did not undertake all steps of the '703 patent and cannot otherwise be held responsible for all those steps, respondents' rights have not been violated." The Court also rejected an analogy to the federal aiding and abetting statute. The Court did, however, acknowledge the danger in permitting a would-be infringer to evade liability by dividing performance of a method claim with another whom the defendant neither directs nor controls, but noted that such an anomaly "would result from the Federal Circuit's interpretation of § 271(a) in *Muniauction*," suggesting that the holding in that case was questionable. The Court also rejected Akamai's suggestion that the Supreme Court review the Federal Circuit's earlier *Muniauction* decision, stating that "we decline to do so today." The case was remanded to the Federal Circuit with the caveat that "the Federal Circuit will have the opportunity to revisit the § 271(a) question if it so chooses."

**Key Take-Away:** The importance of careful claim drafting, particularly when drafting method claims involving computer technology, cannot be overemphasized. Claims that involve participation by more than one person or corporate entity may be

difficult to enforce in court, leaving patent owners with little or no recourse.

#### **4. Doctrine of Equivalents – No “Foreseeability” Requirement**

*Ring & Pinion Service Inc. v. ARB Corp.*, 743 F.3d 831 (Fed. Cir. 2014). A district court granted summary judgment of non-infringement for a patent directed to a locking differential for an automobile. The Federal Circuit reversed, concluding that the district court erroneously held that the patent owner was precluded from asserting equivalence under the doctrine equivalents because the accused structure would have been foreseeable at the time the patent application was filed. The Federal Circuit explained that, “There is not, nor has there ever been, a foreseeability limitation on the application of the doctrine of equivalents. It has long been clear that known interchangeability weighs in favor of finding infringement under the doctrine of equivalents.” The court also made clear that equivalents for purposes of the doctrine of equivalents is measured as of the time of infringement, not the time the patent application was filed – except when assessing equivalency of structure for purposes of literal infringement under 35 U.S.C. § 112(f) (formerly 35 U.S.C. § 112, sixth paragraph).

#### **5. Prosecution History Estoppel Applies to Design Patents**

*Pacific Coast Marine Windshields Ltd v. Malibu Boats, LLC*, 739 F.3d 694 (Fed. Cir. 2014). In an issue of first impression, the Federal Circuit held that the doctrine of prosecution history estoppel applies to design patents. In this case, the patent applicant filed a design patent application claiming an ornamental design for a marine windshield with a frame, a tapered corner post with vent holes and without vent holes, and with a hatch and without a hatch. The patent examiner issued a restriction requirement, identifying 5 different designs. The applicant selected the first group, corresponding to a windshield having four vent holes and a hatch and canceled the figures corresponding to the non-elected group. After the patent issued, the patent owner sued Malibu Boats for infringement based on an accused windshield having only three vent holes. The Federal Circuit affirmed the district court’s grant of summary judgment of non-infringement, concluding that cancellation of figures and striking references to alternative embodiments constituted a surrender of claim scope. It rejected the argument that estoppel was limited to amendments made to avoid prior art.

### **C. Enforcement of Patents**

#### **1. Standards-Essential Patents**

*Apple Inc. v. Motorola, Inc.*, 757 F.3d 1286 (Fed. Cir. 2014). In a patent infringement suit brought by Apple against Motorola, Motorola counterclaimed for

infringement of a patents that was deemed essential to a standard. The district court granted Apple’s motion for summary judgment that Motorola was not entitled to an injunction on the standard-essential patent, because Motorola had agreed to license it on fair, reasonable, and nondiscriminatory (“FRAND”) terms. The Federal Circuit stated that “to the extent the district court applied a *per se* rule that injunctions are unavailable for SEPs [standard-essential patents], it erred. While Motorola’s FRAND commitments are certainly criteria relevant to its entitlement to an injunction, we see no reason to create, as some *amici* urge, a separate rule or analytical framework for addressing injunctions for FRAND-committed patents.” Instead, the court explained that the framework set forth by the Supreme Court in its 2006 *eBay v. MercExchange* case should govern whether an injunction is issued. For example, the Federal Circuit noted that an injunction might be warranted where an infringer refuses a FRAND royalty or unreasonably delays negotiations to the same effect. In this case, however, the Federal Circuit affirmed the summary judgment that no injunction should issue, because Motorola had failed to establish irreparable harm. “Considering the large number of industry participants that are already using the system claimed in the ‘878 patent, including competitors, Motorola has not provided any evidence that adding one more user would create such harm.”

*Commonwealth Scientific and Industrial Research Organization v. Cisco Systems, Inc.*, 2014 WL 3805817 (E.D. Tex. July 23, 2014). Commonwealth Scientific (CSIRO) owns a patent that is essential to practicing a standard-essential invention relating to Wi-Fi. The IEEE adopted the standard, and Cisco agreed to a bench trial on the amount of damages it must pay for using the standard. The district court rejected CSIRO’s damages model as flawed, concluding that its \$30 million theory was based on an expert who had wide variability in estimated profit premiums attributable to the patented technology. The court also found that the expert’s “drastic final apportionment is arbitrary, capricious, and supported by no sound economic methodology.” The court similarly rejected Cisco’s total damages theory of \$1.1 million, because it was based primarily on the prices of chips that implemented various features of the patented invention, rather than the combination of techniques including other components. Relying on the so-called “hypothetical negotiation” between the parties, the district court ultimately focused on an informal offer of \$0.90 per product that Cisco had made to CSIRO even though the offer was made years after the so-called hypothetical negotiation would have taken place. Based on this offer, the district court concluded that a range of \$0.90 to \$1.90 was appropriate (the upper bound set by CSIRO’s “voluntary” licensing program to others), and ultimately awarded total damages in the amount of \$16 million.

*Realtek Semiconductor Corp. v. LSI Corp.*, 2014 WL 2738226 (N.D. Cal. June 16, 2014). LSI Corp owns two patents that it states are “essential” to the 802.11 WiFi standard, and its predecessor (Agere) submitted Letters of Assurance (LOA) to the IEEE stating that it was prepared to grant licenses on a FRAND basis (fair, reasonable, and non-discriminatory). Agere contacted Realtek to offer a license under the patents at a rate of 5%, but Realtek did not respond. Years later, after LSI acquired Agere, LSI sent a letter to Realtek demanding that it cease and desist from

infringing the patents. Less than a week later, LSI filed a complaint in the ITC, seeking to block Realtek products from being imported into the U.S. A month later, Realtek sent a letter to LSI, requesting that it make the patents available under FRAND license terms. LSI responded with an offer letter that applied a royalty rate to the total value of the end product rather than to the value of the components that Realtek supplied. Realtek then sued LSI, asserting that LSI breached its FRAND licensing obligations, and Realtek moved for partially summary judgment. The district court granted the motion, concluding that Agere's LOA letter to the IEEE constituted a binding contract to license their patents, and that filing an ITC action before offering a RAND license constituted a breach of that agreement.

Beginning in February 2014, the court held a jury trial to determine Realtek's breach of contract damages and the RAND rates for the two patents. The jury awarded \$3.8 million to Realtek for breaching of contract and found RAND royalty rates of 0.12% for one patent and 0.07% for the other patent. Realtek then moved for a permanent injunction enjoining LSI from further demanding royalties beyond the jury's verdict and from seeking to enforce any patents in the ITC without first offering Realtek a license. The court denied the injunction because the ITC had ruled that LSI failed to prove infringement, and thus there was no irreparable harm. The court did, however, grant Realtek's request for declaratory relief, ruling that upon Realtek's request for a license, to be in compliance with its RAND obligations, LSI must offer Realtek a license to the patents at the rates found by the jury.

## **2. Injunctions**

*Apple Inc. v. Samsung Electronics Co.*, 735 F.3d 1352 (Fed. Cir. 2013). Apple sued Samsung for infringing various patents relating to smartphones. A jury found that various Samsung smartphones infringed six of Apple's patents (three design patents and three utility patents), and awarded Apple more than \$1 billion in damages. The patents relate generally to the ornamental appearance of the rounded phone, and various touch-screen features such as a "pinch-to-zoom" feature. After trial, Apple moved for a permanent injunction, but the district court denied the motion. On appeal, the Federal Circuit affirmed the denial of the permanent injunction as to the design patents, agreeing with Samsung that Apple had failed to show irreparable harm from the infringement because it did not establish a sufficient "causal nexus" between the harm and Samsung's patent infringement. Apple had failed to submit sufficient evidence that consumers were buying Samsung's products because of the features claimed in the design patents.

As to Apple's utility patents, however, the Federal Circuit held that the district court erroneously rejected Apple's survey evidence showing that consumers were willing to pay a premium for the features claimed in those patents. As to the inadequacy of legal damages to compensate for infringement, the Federal Circuit agreed that Apple's past agreements to license the patents was relevant, but faulted the district court for placing too much weight on Apple's previous licenses, some of which were entered into in settlement of litigation. As to the public interest factor, the Federal

Circuit agreed with the district court's conclusion that an injunction would prevent the public from enjoying a wide range of non-infringing features based on "limited non-core functions."

*Trebro Mfg. v. Firefly Equipment, LLC*, 748 F.3d 1159 (Fed. Cir. 2014). The Federal Circuit reversed a district court's refusal to grant a preliminary injunction to a patent owner that did not itself practice the patented invention. According to the Federal Circuit, "the fact that Trebro does not presently practice the patent does not detract from its likely irreparable harm . . . . Trebro and FireFly are direct competitors selling competing products in the market. Thus, the record strongly shows a probability for irreparable harm." The court also quoted approvingly from an earlier case: "a patentee's failure to practice an invention does not necessarily defeat the patentee's claim of irreparable harm."

### **3. Attorney's Fees**

*Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S.Ct. 1749 (2014). Section 285 of the patent statute permits a district court to award attorney's fees "in exceptional cases . . . to the prevailing party." Existing Federal Circuit case law held that a case could be held "exceptional" in only two situations: (1) when there has been some material inappropriate conduct, or (2) when the litigation is both "brought in subjective bad faith" and is "objectively baseless." In this case, ICON sued Octane for infringing several claims of a patent relating to exercise equipment. The district court granted Octane's motion for summary judgment, concluding that the patent was not infringed. Octane moved for attorney's fees, but the district court denied the motion because Octane did not show that the suit was "objectively baseless" or that ICON had brought it in subjective bad faith. The Federal Circuit affirmed, but the Supreme Court granted certiorari, reversed and remanded.

The Supreme Court began with reference to dictionary definitions of the word "exceptional" from the 1930s, which were in use at the time Congress enacted the 1952 Patent Act. In that context, the word meant "out of the ordinary course," "unusual," or "special." "We hold, then, that an 'exceptional' case is simply one that stands out from others with respect to the substantive strength of a party's litigating position (considering both the governing law and the facts of the case) or the unreasonable manner in which the case was litigated. District courts may determine whether a case is 'exceptional' in the case-by-case exercise of their discretion, considering the totality of the circumstances."

The Supreme Court rejected the Federal Circuit's "rigid and mechanical" formulation established in *Brooks Furniture Mfg, Inc. v. Dutilier Int'l, Inc.*, 393 F.3d 1378 (Fed. Cir. 2005), noting that its standard was nearly the same as that for "sanctionable conduct" under Federal Rule of Civil Procedure Rule 11. Instead, "a district court may award fees in the rare case in which a party's unreasonable conduct – while not necessarily independently sanctionable – is nonetheless so 'exceptional' as to justify an award of fees. Finally, "we reject the Federal Circuit's



requirement that patent litigants establish their entitlement to fees under § 285 by ‘clear and convincing evidence.’” Instead, such entitlement should be based on a preponderance of the evidence standard.

*Highmark Inc. v. Allcare Health Mgt System, Inc.*, 134 S.Ct 1744 (2014). The patent statute provides that a court in exceptional cases may award reasonable attorney fees to the prevailing party. Highmark sued Allcare seeking a declaratory judgment that its patent was invalid, unenforceable, and not infringed. The district court entered a final judgment of noninfringement in favor of Highmark and the Federal Circuit affirmed. Highmark then moved for attorney fees, which the district court granted based on Allcare’s pattern of “vexatious” and “deceitful” conduct throughout the litigation. Among other things, the court found that Allcare had maintained infringement claims against Highmark well after such claims had been shown by its own experts to be without merit, and asserted frivolous defenses. The Federal Circuit reversed in part, reviewing *de novo* the exceptional-case determination. Relying in part on its *Octane Fitness* decision (discussed above), the U.S. Supreme Court vacated and remanded, concluding that “an appellate court should apply an abuse-of-discretion standard in reviewing all aspects of a district court’s § 285 determination.”

**Key Take-Away:** It will be increasingly easier to get attorney’s fees for meritless patent cases, which might discourage so-called “patent trolls” in the coming months and years. Time will tell how far courts are willing to go in making such awards.

#### **4. Induced Infringement at the ITC**

*Suprema, Inc. v. International Trade Commission*, 742 F.3d 1350 (Fed. Cir. Dec. 13, 2013), *vacated and rehearing en banc granted*, 2014 WL 3036241 (May 13, 2014). In an issue of first impression, the Federal Circuit held that the ITC may not issue an exclusion order barring importation of products that infringe only under a theory of induced infringement, where no direct infringement occurs until after importation of the articles the exclusion order would bar. In this case, the direct infringement did not occur until after Mentalix combined Suprema’s products with its own software, thus making Suprema allegedly liable for induced infringement. The Federal Circuit based its decision on the language of the ITC statute (section 337), which refers to importation of “articles that . . . infringe a valid and enforceable United States patent.”

#### **5. Infringement Damages**

*Apple Inc. v. Motorola, Inc.*, 757 F.3d 1286 (Fed. Cir. 2014). Apple sued Motorola for infringing 3 patents relating to various features of smartphones. The district court (Circuit Judge Posner sitting by designation) excluded Apple’s damages expert from testifying regarding damages because that expert relied upon a technical expert to identify a potential design-around option that could have avoided infringement, and relied on the existence of that design-around option for his damages assessment.

According to the Federal Circuit, “The district court’s decision states a rule that neither exists nor is correct. Experts routinely rely upon other experts hired by the party they represent for expertise outside of their field.” The court noted that patent damages experts often rely on technical expertise outside of their field when evaluating design-around options or valuing the importance of the specific infringing features in a complex device. The Federal Circuit also rejected the district court’s concerns that the technical expert who was hired by Apple could have been biased. According to the Federal Circuit, “this concern is addressed by the weight given to the expert’s testimony, not its admissibility.” The Federal Circuit also rejected the district court’s conclusion that Apple was not entitled to any damages because of its purported lack of admissible evidence, noting that the patent statute provides that the court must award damages “in no event less than a reasonable royalty.” The court stated that “If a patentee’s evidence fails to support its specific royalty estimate, the fact finder is still required to determine what royalty is supported by the record.”

*VirnetX, Inc. v. Cisco Systems, Inc.*, 767 F.3d 1308 (Fed. Cir. 2014). In this important damages case, the Federal Circuit again cut back on a large (\$368 million) jury award, concluding that it was not supported by a legally sustainable theory. VirnetX’s damages expert, Mr. Weinstein, provided three different reasonable royalty theories, which the district court admitted and the jury heard. First, Weinstein applied a 1% royalty rate to the base sale price of each device accused of infringement, based on VirnetX’s policy of seeking a 1% to 2% license based on the entire value of products sold and several allegedly comparable licenses, resulting in a \$708 million demand. Second, Weinstein relied on the so-called “Nash Bargaining Solution,” which assumed that the parties would have split between themselves the incremental profits attributable to the use of the patented technology, leading to \$588 million in damages. Third, Weinstein again relied on the Nash Bargaining solution, concluding partly on the basis of a customer survey that 18% of all iOS device sales would not have occurred without the allegedly infringing feature, leading to damages of \$606 million.

As to Weinstein’s first theory, the Federal Circuit held that when claims are drawn to an individual component of a multi-component product, damages may only rarely be based on the value of the multi-component product. “A patentee may assess damages based on the entire market value of the accused product only where the patented feature creates the basis for customer demand or substantially creates the value of the component parts.” According to the Federal Circuit, the district court erroneously instructed the jury that it could apply the entire market value rule as long as the product in question constituted “the smallest saleable unit containing the patented feature.” Here, “the instruction mistakenly suggests that when the smallest saleable unit is used as the royalty base, there is necessarily no further constraint on the selection of the [royalty] base.” According to the court, “Where the smallest saleable unit is, in fact, a multi-component product containing several non-infringing features with no relation to the patented feature (as VirnetX claims it was here), the patentee must do more to estimate what portion of the value of that product is attributable to the patented technology.” Because Weinstein based his calculations

on the entire cost of each Apple device, ranging in value from \$199 for the iPod Touch to \$649 for the iPhone 4S, he failed to properly subtract any other unpatented elements from the base, which therefore included various features not covered by the patents, such as touch-screen, camera, processor, speaker, and microphone.

As to Weinstein's second and third theories, which relied on the so-called Nash Bargaining Theory, the Federal Circuit squarely rejected that as a basis for calculating damages. Like the previous "25% rule of thumb" starting point for determining a reasonable royalty in patent infringement damages, "the use here was just such an inappropriate 'rule of thumb.'" According to the Federal Circuit, "while we comment parties for using a theory that more appropriately (and narrowly) defines the universe of profits to be split, the suggestion that those profits be split on a 50/50 basis – even when adjusted to account for certain individual circumstances – is insufficiently tied to the facts of the case, and cannot be supported." For these reasons, the court vacated and remanded for recalculation of damages.

## **6. Patent Co-Owner Can Preclude Infringement Suit**

*STC.UNM v. Intel Corp.*, 754 F.3d 940 (Fed. Cir. 2014). STC.UNM sued Intel for patent infringement, but the district court dismissed the suit for lack of standing because non-party Sandia Corp. was a co-owner of the patent but it had not voluntarily joined as a co-plaintiff and could not be involuntarily joined. The Federal Circuit affirmed, concluding that all co-owners must consent to join as plaintiffs in an infringement suit. The Federal Circuit explained that there are only scenarios that can overcome this rule: First, when a patent owner has granted an exclusive license, he can be involuntarily joined. Second, if the co-owner waives his right to join the suit, his co-owners may force him to join in a suit against infringers. Because neither of those scenarios was present, the Federal Circuit affirmed the dismissal. Judge Newman dissenting, arguing that Rule 19 provided for involuntary joinder of the non-consenting co-owner of the patent.

## **7. Stays of Litigation Pending PTO Review of Patent**

*Virtualagility Inc. v. Salesforce.com, Inc.*, 759 F.3d 1307 (Fed. Cir. 2014). Virtualagility sued Salesforce.com and several other defendants for infringing a U.S. patent directed to processing management information. Shortly after the suit was filed, Salesforce.com filed a petition with the U.S. Patent Trial and Appeal Board (PTAB) seeking post-grant review of all claims of the patent under the so-called "Covered Business Method (CBM) Review" program. A few days later, the defendants filed a motion to stay the district court proceedings pursuant to AIA § 18(b)(1). While the motion was pending, the PTAB granted the petition to review the patent. The district court thereafter denied the motion to stay, and the defendants appealed the denial to the Federal Circuit, which is permitted by statute as an interlocutory appeal.

The Federal Circuit looked at the four factors provided under the statute to decide

whether an a stay should be granted: (1) whether a stay would simplify the issues for trial; (2) whether discovery is complete; (3) whether a stay would prejudice the nonmoving party; and (4) whether a stay would reduce the burden of litigation.

The Federal Circuit began by sidestepping the standard of review, holding that even under a more deferential abuse of discretion standard, the district court's decision to deny a stay was erroneous. According to the Federal Circuit, "the district court erred as a matter of law to the extent that it decided to 'review' the PTAB's determination that the claims of the '413 patent are more likely than not invalid in the posture of a ruling on a motion to stay." The Federal Circuit also found it significant that the PTAB granted review of all claims of the single asserted patent. "This CBM review could dispose of the entire litigation: the ultimate simplification of issues."

#### **8. Consumer Groups May Lack Standing to Attack Patents**

*Consumer Watchdog v. Wisconsin Alumni Research Foundation*, 753 F.3d 1258 (Fed. Cir. 2014). Consumer Watchdog requested inter partes reexamination of a patent directed to human embryonic stem cell cultures. It appealed from the PTAB's decision affirming the patentability of the claims of the patent. The Federal Circuit dismissed the appeal, concluding that Consumer Watchdog lacked Article III standing to pursue the appeal. In particular, Consumer Watchdog had no involvement in any research or commercial activities involving human embryonic stem cells, and had failed to identify any injury aside from the PTAB's denying the particular outcome it desired. "Because Consumer Watchdog has not identified a particularized, concrete interest in the patentability of the '913 patent, or any injury in fact flowing from the Board's decision, it lacks standing to appeal the decision affirming the patentability of the amended claims."

#### **9. Contempt Order Not Appealable Until Sanctions Determined**

*Arlington Industries, Inc. v. Bridgeport Fittings, Inc.*, 759 F.3d 1333 (Fed. Cir. 2014). Arlington sued Bridgeport in for infringing a patent relating to a method for connecting electrical cables to a junction box. The parties entered into a settlement agreement under which Bridgeport agreed to be enjoined from making and selling certain products. Years later, after Bridgeport had redesigned its products, Arlington sought a contempt order holding that the redesigned connectors violated the injunction. The district court found that Bridgeport was in contempt of the injunction and also expressly enjoined the sale of the redesigned connectors, but before it determined any sanctions for the contempt, Bridgeport appealed to the Federal Circuit. The Federal Circuit dismissed the appeal, concluding that because the district court had not modified the injunction but merely interpreted it, the decision was not a final decision ripe for appeal. The court concluded that the earlier 2004 injunction and the newly-issued order were directed to the same parties, applied to the same activities, and were in force for the same time period. Even though the district court's newly-issued injunction differed slightly in wording from the earlier 2004 order, it did not change the scope of the earlier injunction, which applied to

products that were not “colorably different” from the ones found to infringe.

#### **10. Declaratory Judgment Jurisdiction Where Customers Are Sued**

*Microsoft Corp. v. Datatarn, Inc.*, 755 F.3d 899 (2014). Datatarn sued several customers of Microsoft and SAP for infringing two of its patents. Datatarn sent the customers claim charts showing how their use of Microsoft’s and SAP’s software infringed the patents, with reference to certain Microsoft and SAP product manuals showing how to use the software. After several of the customers demanded indemnity from Microsoft and SAP, the latter filed declaratory judgment actions against Datatarn, seeking a declaratory judgment that the patents were invalid and not infringed. The district court refused to dismiss the DJ actions because Datatarn had provided claim charts showing infringement and because of the indemnification demands from the customers. The Federal Circuit affirmed the denial of the dismissal motions, concluding that although it was not enough to base jurisdiction on the indemnity demands, the fact that Datatarn provided claim charts pointing to Microsoft and SAP manuals as the basis for infringement gave rise to a substantial controversy regarding whether they induced infringement.

#### **11. Inequitable Conduct**

*Apotex Inc. v. UCB, Inc.*, 763 F.3d 1354 (Fed. Cir. 2014). Since the Federal Circuit’s 2011 en banc decision in *Therasense Inc. v. Becton, Dickinson and Co.*, 649 1276 (Fed. Cir. 2011), it has been much harder to prove that a patent applicant engaged in inequitable conduct that renders a patent unenforceable. This is a rare case in which such a ruling was upheld. Apotex owns a patent for a process for manufacturing a pharmaceutical drug that treats hypertension. Apotex’s founder and chairman drafted the patent application, which included certain examples of experiments that were never conducted. He also hired an expert to persuade the U.S. PTO to allow the patent, based partly on false information regarding what was known in the prior art. The district court found that the founder’s testimony at trial was not credible, and that he intended to mislead the PTO based on the never-conducted experiments and the falsely submitted information. The Federal Circuit affirmed, concluding that the patent specification and the affirmative misrepresentations were material to patentability (i.e., the PTO would never have issued the patent absent the misconduct). The Federal Circuit also concluded that there was intent to deceive the PTO, based on the founder’s extensive prior patent prosecution experience. Accordingly, the patent was held to be unenforceable and the infringer was not liable for patent infringement.

#### **14. Burden of Proving Infringement in a DJ Action**

*Medtronic, Inc. v. Mirowski Family Ventures, LLC*, 134 S.Ct. 843 (2014). The U.S. Supreme Court reversed the Federal Circuit in this case, holding that the burden of proving patent infringement remains on the patent owner, even when a licensee seeks a declaratory judgment of noninfringement. According to the Supreme Court:

“When a patent licensee paying royalties into an escrow account under a patent licensing agreement seeks a declaratory judgment that some of its products are not covered by or do not infringe the patent . . . the burden of persuasion is with the patentee, just as it would be had the patentee brought an infringement action.”

**15. Severing/Staying Infringement Suits Against Customers**

*In re Nintendo of America, Inc.*, 756 F.3d 1363 (Fed. Cir. 2014). The Federal Circuit granted Nintendo’s petition for a writ of mandamus, and directed that the Eastern District of Texas transfer a patent infringement claim against Nintendo to the Western District of Washington, where most of its evidence resided, and to stay the remaining case against Nintendo’s retailer customers. “When a patent owner files an infringement suit against a manufacturer’s customer and the manufacturer then files an action of noninfringement or patent invalidity, the suit by the manufacturer generally takes precedence.”

# **PATENTS**

**COUNSELING,  
OPINIONS &  
LICENSING**





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**John P. Iwanicki**

***Banner & Witcoff Intellectual  
Property Alert***

**March 10, 2014**

## Intellectual Property Alert: The USPTO Announces New Guidelines for Determining Subject Matter Eligibility Under 35 U.S.C. §101 in View of *Myriad*, *Prometheus* and *Chakrabarty*

By John P. Iwanicki

March 10, 2014 – On March 4, 2014, the United States Patent & Trademark Office issued guidelines for the examination of “all claims (i.e., machine, composition, manufacture and process claims) reciting or involving laws of nature/natural principles, natural phenomena, and/or natural products” in view of the U.S. Supreme Court decisions in *Myriad*, *Prometheus* and *Chakrabarty*. The goal of the Examiners is to determine “whether a claim reflects a significant difference from what exists in nature and thus is eligible, or whether a claim is effectively drawn to something that is naturally occurring.”

The guidelines emphasize “the Office’s reliance on *Chakrabarty*’s criterion for eligibility of natural products (i.e., whether the claimed product is a non-naturally occurring product of human ingenuity that is markedly different from naturally occurring products)” and that “claims reciting or involving natural products should be examined for a marked difference under *Chakrabarty*.”

### THE TEST

The Examiners are instructed to follow the flowchart below to determine whether a claim should be rejected as ineligible subject matter under 35 U.S.C. §101.

The flowchart requires the Examiner to assess whether the claim includes a law of nature/natural principle, natural phenomena or natural product, i.e. a judicial exception. Examples include:

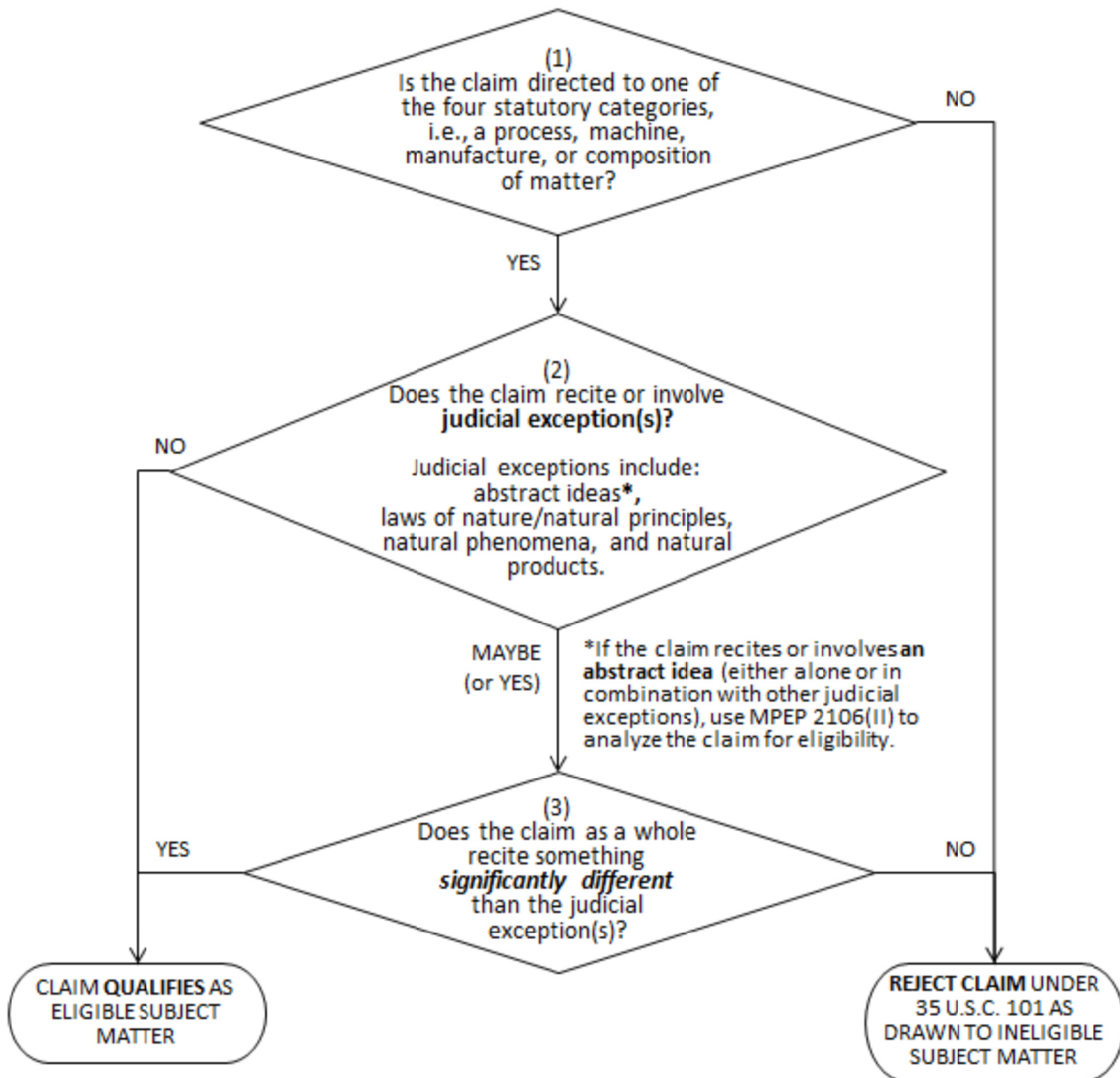
the law of gravity,  $F=ma$ , sunlight, barometric pressure, etc.;

a citrus fruit, uranium metal, nucleic acid, protein etc.;

chemicals derived from natural sources (e.g., antibiotics, fats oils, petroleum derivatives, resins, toxins, etc.); foods (e.g., fruits, grains, meats and vegetables); metals and metallic compounds that exist in nature; minerals, natural minerals (e.g., rocks, sands, soils); nucleic acids; organisms (e.g., bacteria, plants and multicellular animals); proteins and peptides; and other substances found or derived from nature.

If the claim includes a law of nature/natural principle, natural phenomena or natural product, then the Examiner is required to determine whether the claim as a whole recites something *significantly different* than the law of nature/natural principle, natural phenomena or natural product. According to the guidelines, a significant difference can be shown in multiple ways. For example:

(1) the claim includes elements or steps in addition to the judicial exception that practically apply the judicial exception in a significant way, e.g., by adding significantly more to the judicial exception; and/or (2) the claim includes features or steps that demonstrate that the claimed subject matter is markedly different from what exists in nature (and thus not a judicial exception).



## GUIDING FACTORS

Factors that weigh toward eligibility (significantly different):

a) Claim is a product claim reciting something that initially appears to be a natural product, but after analysis is determined to be non-naturally occurring and markedly different in structure from naturally occurring products.

- b) Claim recites elements/steps in addition to the judicial exception(s) that impose meaningful limits on claim scope, i.e., the elements/steps narrow the scope of the claim so that others are not substantially foreclosed from using the judicial exception(s).
- c) Claim recites elements/steps in addition to the judicial exception(s) that relate to the judicial, exception in a significant way, i.e., the elements/steps are more than nominally, insignificantly or tangentially related to the judicial exception(s).
- d) Claim recites elements/steps in addition to the judicial exception(s) that do more than describe the judicial exception(s) with general instructions to apply or use the judicial exception(s).
- e) Claim recites elements/steps in addition to the judicial exception(s) that include a particular machine or transformation of a particular article, where the particular machine/transformation implements one or more judicial exception(s) or integrates the judicial exception(s) into a particular practical application. (See MPEP 2106(II)(B)(1) for an explanation of the machine or transformation factors.)
- f) Claim recites one or more elements/steps in addition to the judicial exception(s) that add a feature that is more than well-understood, purely conventional or routine in the relevant field.

Factors that weigh against eligibility (not significantly different):

- g) Claim is a product claim reciting something that appears to be a natural product that is not markedly different in structure from naturally occurring products.
- h) Claim recites elements/steps in addition to the judicial exception(s) at a high level of generality such that substantially all practical applications of the judicial exception(s) are covered.
- i) Claim recites elements/steps in addition to the judicial exception(s) that must be used/taken by others to apply the judicial exception(s).
- j) Claim recites elements/steps in addition to the judicial exception(s) that are well-understood, purely conventional or routine in the relevant field.
- k) Claim recites elements/steps in addition to the judicial exception(s) that are insignificant extra-solution activity, e.g., are merely appended to the judicial exception(s).
- l) Claim recites elements/steps in addition to the judicial exception(s) that amount to nothing more than a mere field of use.

## **EXAMPLES**

For product or composition claims, the Examiners are provided with examples for determining eligibility of subject matter under 35 U.S.C. §101 that focus on whether the claimed subject matter is markedly different in structure from a natural product. The guidelines note that the structural changes to nucleic acids resulting from their isolation are not markedly different from naturally occurring nucleic acids. “[A] marked difference must be a significant difference, i.e., more than an incidental or trivial difference.”

cDNA, hybrid plants and genetically modified bacteria are given as examples of being markedly different in structure from naturally occurring DNA or naturally occurring plants even though the methods of making such cDNA or hybrid plants may be considered routine manipulation of natural processes.

An isolated compound from a natural source is not markedly different from the natural product. However, a synthetic derivative of the compound that has a different property from the natural product may be markedly different from the natural compound. Also, a use of the product in its isolated form according to a dosage amount and regimen to treat a particular disease that otherwise could not be treated by the compound in its natural form may be markedly different subject matter.

Articles of manufacture including naturally occurring substances are considered statutory subject matter where the article includes “something significantly different from the natural products themselves.” The example given is a firework including a cardboard body, sparking composition, and ignition fuse in addition to the naturally occurring calcium chloride and gunpowder formulations. This amounts to a specific practical application of the natural products.

Compositions of multiple natural products may not be statutory subject matter where the combination does not result in properties markedly different from what exists in nature. For example, where different species of naturally occurring bacteria are combined and each species is unaffected in its properties by the other species, then the composition may not be markedly different from the individual naturally occurring bacteria.

A claim to primers of specific sequences is not statutory subject matter where the sequences are naturally occurring sequences found on a human chromosome. However, a claim to the use of the primers to amplify target DNA using a template, a polymerase, nucleotides and reaction conditions may be statutory subject matter because the claim amounts to a practical application of the natural product primers.

A method claim to diagnosing whether an individual has a degenerative disease may not be statutory subject matter where a natural principle, i.e., a mere correlation between a degenerative disease and the presence of a metabolite, is all that is required by the claims. However, when the claimed method uses an antibody that does not exist in nature and is not purely conventional or routine in the art, i.e., it was created by the inventors, then the method may be statutory subject matter because the claim recites something significantly different from the natural principle and amounts to a practical application of the natural principle.

A method claim to treating an individual by subjecting the individual to natural principle or natural phenomena without more may not be statutory subject matter. The guidelines present an example where an individual is treated with sunlight to alter neuronal activity, which leads to mitigation of a mood disorder. It is known that white light changes neuronal activity and affects a person’s mood and that sunlight is a natural source of white light. Therefore, the use of sunlight is purely conventional and routine in the art of treating mood disorders. Even if the source of white light is synthetic and not natural, the use of a synthetic source is not significantly different from the natural principle itself and does not amount to a practical application of the natural principle. However, where conditions such as filtering ultraviolet rays from a white light source, positioning a patient a distance from the white light source and other treatment conditions are recited in a claim, the claim may recite something significantly different from the natural principle such that the claim is a practical application of the natural principle.

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**May 20, 2014**