

**21st ANNUAL REVIEW OF INTELLECTUAL PROPERTY DECISIONS OF
THE U.S. COURT OF APPEALS FOR THE FEDERAL CIRCUIT
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FEDERAL CIRCUIT PATENT REVIEW

***Claim Construction/**Transnational Infringement/**Inequitable Conduct**

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. CLAIM CONSTRUCTION AFTER *PHILLIPS

<p>The following “evidentiary hierarchy” guides patent claim construction: (1) the patent’s claims; (2) the specification; (3) the prosecution history; (4) dictionaries; and (5) expert witnesses. The goal is to determine what the claims would have meant to a person of ordinary skill in the art at the time of the invention.</p>
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I. INTRODUCTION

The Patent Bar awaited with great anticipation the Federal Circuit’s en banc decision in *Phillips v. AWH Corp.*, 415 F.3d 1303, 75 U.S.P.Q.2d 1321 (Fed. Cir. 2005). The Federal Circuit issued its opinion on July 12, 2005. Although some have criticized the opinion because it primarily reaffirmed the canons of claim construction established in earlier cases (notably Markman and Vitronics), the court did endeavor to resolve two conflicting lines of Federal Circuit cases addressing the importance of intrinsic and extrinsic evidence in claim construction. Nine judges joined the en banc decision, with two others joining in part. Therefore, the opinion seems to reflect a consensus on certain claim construction priorities.

II. WHY IS *PHILLIPS* IMPORTANT?

Why is *Phillips* important, warranting our attention? There are at least two reasons.

A. First, claim construction is the critical first step of any patent case. A basic principle of patent law is that the claim language defines the scope of the

exclusive rights granted by the patent statute.¹ With respect to patentability, validity, and infringement, the Federal Circuit has quipped, “the name of the game is the claim.”² It is well recognized that the construction of the claims may resolve some or all of the issues in a case.³ Finally, claim construction is “the central issue of nearly every patent appeal.”⁴

B. Second, the law was (and remains?) extraordinarily unclear on the issue of claim construction and, therefore, in need of revision. Many federal jurists have ranked the issue as among the most challenging faced by the federal bench. The famous U.S. Supreme Court quotation from 1886 in *White v. Dunbar*, referring to claims as “like a nose of wax,” illustrates this point:

Some persons seem to suppose that a claim in a patent is like a nose of wax which may be turned and twisted in any direction, by merely referring to the specification, so as to make it include something more than, or something different from, what its words express. The context may, undoubtedly, be resorted to, and often is resorted to, for the purpose of better understanding the meaning of the claim; but not for the purpose of changing it, and making it different from what it is. The claim is a statutory requirement, prescribed for the very purpose of making the patentee define precisely what his invention is; and it is unjust to the public, as well as an evasion of the law, to construe it in a manner different from the plain import of this court that it is unnecessary to pursue the subject further.⁵

Perhaps more important, the Federal Circuit itself recently noted its “complex and inconsistent” precedent regarding patent claim construction.⁶

III. SUMMARY OF BASIC CLAIM CONSTRUCTION PRINCIPLES

As a quick warm up, let’s consider briefly some canons or principles of claim construction that appear largely uncontroverted.

¹. *Eastman Kodak Co. v. Goodyear Tire & Rubber Co.*, 114 F.3d 1547, 1552 (Fed. Cir. 1998).

². *In re Hiniker Co.*, 150 F.3d 1362, 1369 (Fed. Cir. 1998).

³. “[T]he central issue in this appeal--as is often the case in patent appeals in the wake of *Markman*, 52 F.3d at 989 (Mayer, J., concurring) (“[T]o decide what the claims means is nearly always to decide the case.”)--is the district court’s claim interpretation.” *Eastman Kodak Co. v. The Goodyear Tire & Rubber Co.*, 114 F.3d 1547, 1552 (Fed. Cir. 1997).

⁴. *Minco, Inc. v. Combustion Eng’g, Inc.*, 95 F.3d 1109, 1114 (Fed. Cir. 1996).

⁵. *White v. Dunbar*, 119 U.S. 47, 51-52 (1886) (cited in *Innova/Pure Water, Inc. v. Safari Water Filtration Sys., Inc.*, 381 F.3d 1111, 1116 (Fed. Cir. 2004)).

⁶. “The district court’s lengthy and careful opinions relied extensively on our recent case law [on patent claim construction], which is unfortunately complex and inconsistent.” *Astrazeneca AB v. Mutual Pharmaceutical Co.*, 384 F.3d 1333, 1336 (Fed. Cir. 2004).

- A. Whatever the claim construction, it must be consistently applied to the issues of patentability, infringement, and validity.⁷
- B. A claim term must be interpreted consistently in all claims.⁸ Consider the converse: “[W]hen an applicant uses different terms in a claim it is permissible to infer that he intended his choice of different terms to reflect a differentiation in the meaning of those terms.”⁹
- C. During prosecution in the U.S. Patent and Trademark Office (PTO), claims are given their broadest possible interpretation because the applicant is free to amend the claims.¹⁰
- D. Exercise caution when referring to the opinion of an earlier court decision to interpret a patent claim term. For example, the meaning of a claim term “may not have been stagnant between” an earlier case or application and the present case or application.¹¹
- E. Patent claim interpretation is a question of law exclusively for the court (not a jury) to decide; it is reviewed *de novo* on appeal.¹² But note the long line of pre-*Markman* cases holding that claim construction may have underlying factual questions left to the trier of fact.¹³

IV. THE PHILLIPS DECISION

In *Phillips v. AWH Corp.*, 415 F.3d 1303, 75 U.S.P.Q.2d 1321 (Fed. Cir. 2005) (en banc), the court agreed to rehear the appeal en banc and vacated the judgment of the panel. Specifically, the Federal Circuit reversed the portion of the district court’s judgment addressed to the issue of infringement. The Federal Circuit

⁷. *Southwall Tech., Inc. v. Cardinal IG Co.*, 54 F.3d 1570, 1576 (Fed. Cir.) (“Claims may not be construed one way in order to obtain their allowance and in a different way against accused infringers.”), *cert. denied*, 516 U.S. 987 (1995).

⁸. *Digital Biometrics, Inc. v. Identix, Inc.*, 149 F.3d 1335, 1345 (Fed. Cir. 1998).

⁹. *Innova/Pure Water, Inc. v. Safari Water Filtration Sys., Inc.*, 381 F.3d 1111, 1120 (Fed. Cir. 2004) (Nevertheless, “we must conclude that this is simply a case where the patentee used different words [“connected” and “associated”] to express similar concepts, even though it may be confusing drafting practice.”).

¹⁰. *In re Graves*, 69 F.3d 1147, 1152 (Fed. Cir. 1995). Product-by-process claims are a possible exception. The PTO construes the product as not limited to the process stated in the claim for purposes of patentability. Essentially, the PTO treats product-by-process claims as product claims. In court, however, process terms in product-by-process claims serve as limitations for determining infringement and validity. *Atlantic Thermoplastics Co. v. Faytex Corp.*, 970 F.2d 834, 846-47 (Fed. Cir. 1992) (perhaps overruling *Scripps Clinic & Research Foundation v. Genentech, Inc.*, 927 F.2d 1565 (Fed. Cir. 1991), on that point).

¹¹. *Chiron Corp. v. Genentech, Inc.*, 363 F.3d 1247, 1257 (Fed. Cir. 2004).

¹². *Markman v. Westview Instruments, Inc.*, 52 F.3d 967, 970-71, 979 (Fed. Cir. 1995) (in banc), *aff’d*, 517 U.S. 370 (1996).

¹³. See, e.g., *Palumbo v. Don-Joy Co.*, 762 F.2d 969, 974 (Fed. Cir. 1985), *McGill Inc. v. John Zink Co.*, 736 F.2d 666, 672 (Fed. Cir. 1984).

provided the following guidance on claim interpretation. “In Vitronics . . . we recognized that there is no magic formula or catechism for conduction claim construction. . . . The sequence of steps used by the judge in consulting various sources is not important; what matters is for the court to attach the appropriate weight to be assigned to those sources in light of the statutes and policies that inform patent law. . . . Today, we adhere to that approach and reaffirm the approach to claim construction outlined in that case”

“The principle question that this case presents to us is the extent to which we should resort to and rely on a patent’s specification in seeking to ascertain the proper scope of its claims. . . .” The court listed the following intrinsic tools for interpretation, in order: (1) “Quite apart from the written description and the prosecution history, the claims themselves provide substantial guidance as to the meaning of particular claim terms.”; (2) “claims ‘must be read in view of the specification, of which they are a part.’ . . . Consistent with that general principle, our cases recognize that the specification may reveal a special definition given to a claim term by the patentee that differs from the meaning it would otherwise possess. In such cases, the inventor’s lexicography governs. In other cases, the specification may reveal an intentional disclaimer, or disavowal, of claim scope by the inventor.”; (3) “In addition to consulting the specification, we have held that a court ‘should also consider the patent’s prosecution history, if it is in evidence.’ . . . The prosecution history, which we have designated as part of the ‘intrinsic evidence,’ consists of the complete record of the proceedings before the PTO and includes the prior art cited during the examination of the patent. . . . Yet because the prosecution history represents an ongoing negotiation between the PTO and the applicant, rather than the final product of that negotiation, it often lacks the clarity of the specification and thus is less useful for claim construction purposes.”

The court then turned to extrinsic claim interpretation tools, stating “Although we have emphasized the importance of intrinsic evidence in claim construction, we have also authorized district courts to rely on extrinsic evidence, which ‘consists of all evidence external to the patent and prosecution history, including expert and inventor testimony, dictionaries, and learned treatises.’ . . . However, while extrinsic evidence ‘can shed useful light on the relevant art,’ we have explained that it is ‘less significant than the intrinsic record in determining ‘the legally operative meaning of claim language.’ . . . We have viewed extrinsic evidence in general as less reliable than the patent and its prosecution history in determining how to read claim terms, for several reasons.”

The court then addressed the role of dictionary evidence: “We do not intend to preclude the appropriate [and limited] use of dictionaries.” “Although the concern expressed by the court in Texas Digital was valid, the methodology it adopted placed too much reliance on extrinsic sources such as dictionaries, treatises, and encyclopedias and too little on intrinsic sources, in particular, the specification and prosecution history. . . . Dictionaries, by their nature, provide an expansive array of definitions. . . . In such circumstances, it is inevitable that the multiple dictionary definitions for a term will extend beyond the ‘construction of

the patent [that] is confirmed by the avowed understanding of the patentee, expressed by him, or on his behalf, when his application for the original patent was pending.’ . . . Even technical dictionaries or treatises, under certain circumstances, may suffer from some of these deficiencies. There is no guarantee that a term is used in the same way in a treatise as it would be by the patentee. In fact, discrepancies between the patent and treatises are apt to be common because the patent by its nature describes something novel.”

Finally, the Federal Circuit expressly noted that it had posed the following questions on the issue of deference for en banc consideration: is it appropriate for this court to accord any deference to any aspect of trial court claim construction rulings? If so, on what aspects, in what circumstances, and to what extent? Nevertheless, the court stated: “After consideration of the matter, we have decided not to address that issue at this time. We therefore leave undisturbed our prior en banc decision in Cybor.”

V. CASES AFTER *PHILLIPS*

A. In *Nystrom v. TREX Co., Inc.*, 424 F.3d 1136, 76 U.S.P.Q.2d 1481 (Fed. Cir. 2005) (new opinion replaces withdrawn original at 374 F.3d 1105, 71 USPQ2d 1241 (Fed. Cir. 2004)), Nystrom argued that the claim term “board” should not be limited to a piece of cut wood but should encompass any similarly shaped rigid material. The Federal Circuit applied Phillips to reject that argument, while expressly acknowledging that “there was no clear disavowal of claim scope”: “However, as explained in Phillips, Nystrom is not entitled to a claim construction divorced from the context of the written description and prosecution history. . . . What Phillips now counsels is that in the absence of something in the written description and/or prosecution history to provide explicit or implicit notice to the public--i.e., those of ordinary skill in the art--that the inventor intended a disputed term to cover more than the ordinary and customary meaning revealed by the context of the intrinsic record, it is improper to read the term to encompass a broader definition simply because it may be found in a dictionary, treatise, or other extrinsic source.”

B. In *Semitool, Inc. v. Dynamic Micro Sys. Semiconductor Equip. GmbH*, --- F.3d ---, 78 U.S.P.Q.2d 1438 (Fed. Cir. 2006), the Federal Circuit applied Phillips and upheld the claim interpretation principle that the specification is usually dispositive.

C. *Free Motion Fitness, Inc. v. Cybex Int'l, Inc.*, 423 F.3d 1343, 76 U.S.P.Q.2d 1432 (Fed. Cir. 2005) (applying Phillips and rejecting a party’s suggestion that the claims be construed with an eye toward preserving their validity: “We reject Nautilus’s argument because a court may only construe claims to preserve their validity when ‘after applying all the available tools of claim construction . . . the claim is still ambiguous.’ Phillips, 415 F.3d at 1327 (citing Liebel-Flarsheim Co. v. Medrad, Inc., 358 F.3d 898, 911 (Fed. Cir. 2004)). The claim in this case is not ambiguous.”).

VI. INDEFINITE CLAIMS

Under 35 U.S.C. § 112, second paragraph, claims must inform the public what infringes and what does not; otherwise, the claims are invalid because indefinite.

A. In *Datamize, LLC v. Plumtree Software, Inc.*, 417 F.3d 1342, 75 U.S.P.Q.2d 1801 (Fed. Cir. 2005), the Federal Circuit affirmed the district court's decision to hold invalid each claim of a patent as indefinite under 35 U.S.C. § 112, second paragraph. "At issue in this appeal is the definiteness of 'aesthetically pleasing' as it is used in the context of claim 1," i.e., as it refers to custom interface screens in an electronic kiosk system or, more particularly, to the aggregate layout of elements on the interface screens. Per the Federal Circuit, the claim term is indefinite because it fails to provide one of ordinary skill in the art with any way to determine whether an interface screen is "aesthetically pleasing." "Datamize has offered no objective definition [in the patent or in the prosecution history or in an expert's declaration, which "improperly ignores the plain meaning of the claim language"] identifying a standard for determining when an interface screen is 'aesthetically pleasing.' In the absence of a workable objective standard, 'aesthetically pleasing' does not just include a subjective element, it is completely dependent on a person's subjective opinion. . . . Some objective standard must be provided in order to allow the public to determine the scope of the claimed invention. . . . In short, the definition of 'aesthetically pleasing' cannot depend on the undefined views of unnamed persons, even if they are experts, specialists, or academics."

B. In *Marley Mouldings Limited v. Mikron Industries, Inc.*, 417 F.3d 1356, 75 U.S.P.Q.2d 1954 (Fed. Cir. 2005), the Federal Circuit reversed the district court's grant of summary judgment that all claims of the asserted patent were invalid for indefiniteness. The court distinguished *Honeywell International, Inc. v. International Trade Commission*, 341 F.3d 1332 (Fed. Cir. 2003) ("In *Honeywell*, 341 F.3d 1332, this court held indefinite a claim that included a specified melting parameter of a polymeric yarn but did not state which of four known methods of preparing and testing the yarn was used. In *Honeywell* there was evidence that the method of preparation and testing was critical to the measurement, and that only one of the four methods produced a measurement within the claimed range; whereby the court concluded that the claims were 'insolubly ambiguous, and hence indefinite.'). "The statute is satisfied if a person skilled in the field of the invention would reasonably understand the claim when read in the context of the specification. . . . The district court held the claims indefinite because the patent does not state which approach [of two known] to use. "It was not disputed[, however,] that persons of experience in the field of the '927 invention would understand how to measure parts by volume, and how to convert weight into volume from bulk density data."

C. *Energizer Holdings, Inc. v. International Trade Commission*, 435 F.3d 1366, 77 U.S.P.Q.2d 1625 (Fed. Cir. 2006) (reversed ITC holding, in the context

of an action under Section 337, all of the claims of the asserted patent invalid as indefinite under 35 U.S.C. § 112, 2d paragraph). The absence of an antecedent basis for the claim term “said zinc anode” was not grounds to find the claim invalid for indefiniteness. An antecedent basis for a claim term can, as in this case, be presented by implication, according to the court, citing Slimfold Manufacturing Co. v. Kinkead Industries, Inc., 810 F.2d 1113, 1116 (Fed. Cir. 1987). The antecedent claim language “anode gel comprised of zinc” provided the implied antecedent basis in this case. “When the meaning of the claim would reasonably be understood by persons of ordinary skill when read in light of the specification, the claim is not subject to invalidity upon departure from the protocol of ‘antecedent basis.’ The requirement of antecedent basis is a rule of patent drafting, administered during patent examination. The Manual of Patent Examining Procedure states that ‘[o]bviously, however, the failure to provide explicit antecedent basis for terms does not always render a claim indefinite.’ MPEP §2173.05(e) (8th ed. Rev. 2, May, 2004).” A claim is sufficiently clear as long as its meaning is “discernible.” This is so even if the claim construction task is formidable and reasonable persons can disagree over the conclusion, citing Exxon Research Research & Eng’g Co. v United States, 265 F.3d 1371, 1375 (Fed. Cir. 2001). “An analysis of claim indefiniteness under §112 ¶2 is ‘inextricably intertwined with claim construction.’”

D. “Whether a single claim covering both an apparatus and a method of use of that apparatus is invalid [under 35 U.S.C. § 112, 2d paragraph, as indefinite] is an issue of first impression in this court.” Citing MPEP § 2173.05(p)(II) and R. Faber, Landis on Mechanics of Patent Claim Drafting § 60A (2001) (“Never mix claim types to different classes of invention in a single claim.”), the Federal Circuit held the claim invalid. IPXL Holdings, L.L.C. v. Amazon.com, Inc., 430 F.3d 1377, 77 U.S.P.Q.2d 1140 (Fed. Cir. 2005).

** **TRANSNATIONAL INFRINGEMENT UNDER SECTION 271(f)**

A Section 271(f) “component” encompasses both catalysts and software sent abroad via electronic transmission or shipped abroad on a disk. For software components, the act of copying is subsumed in the act of “supplying.” Section 271(f) may (Eolas, Union Carbide) or may not (NTP) apply to method and process claims.

A. 35 U.S.C. 271 Infringement of patent:

(f)(1) Whoever without authority supplies or causes to be supplied in or from the United States all or a substantial portion of the components of a patented invention, where such components are uncombined in whole or in part, in such manner as to actively induce the combination of such components outside of the United States in a manner that would infringe the patent if such combination occurred within the United States, shall be liable as an infringer.

(f)(2) Whoever without authority supplies or causes to be supplied in or from the United States any component of a patented invention that is especially made or especially adapted for use in the invention and not a staple article or commodity of commerce suitable for substantial noninfringing use, where such component is uncombined in whole or in part, knowing that such component is so made or adapted and intending that such component will be combined outside of the United States in a manner that would infringe the patent if such combination occurred within the United States, shall be liable as an infringer.

B. In *Eolas Technologies Inc. v. Microsoft Corp.*, 399 F.3d 1325 (Fed. Cir. 2005), the Federal Circuit addressed “whether software code made in the United States and exported abroad is a ‘component[] of a patented invention’ under section 271(f).” Microsoft exports a limited number of golden master disks containing the software code for the Windows operating system to Original Equipment Manufacturers (OEMs) abroad who use that disk to replicate the code onto computer hard drives for sale outside of the United States. The golden master disk itself does not end up as a physical part of an infringing product. “This statutory language did not limit section 271(f) to patented ‘machines’ or patented ‘physical structures.’ Rather every form of invention eligible for patenting falls within the protection of section 271(f). By the same token, the statute did not limit section 271(f) to ‘machine’ components or ‘structural or physical’ components. Rather every component of every form of invention deserves the protection of section 271(f).” Thus, the “computer readable program code” recited in claim 6 of the ’906 patent is a part or component of that patented invention. The “components” of Section 271(f)(1) include software code on disks. See also *AT&T Corp. v. Microsoft Corp.*, 414 F.3d 1366, 75 U.S.P.Q.2d 1506 (Fed. Cir. 2005) (citing Eolas and confirming and applying the principle that

software is a “component” of a patented invention under Section 271(f) (Microsoft held liable for infringement for copies of an operating system that had been replicated abroad from a master version sent from the United States).

C. In *AT&T Corp. v. Microsoft Corp.*, 414 F.3d 1366, 75 U.S.P.Q.2d 1506 (Fed. Cir. 2005), *cert. petition filed* (U.S. 2/17/06), the Federal Circuit held Microsoft liable for infringement for copies of an operating system that had been replicated abroad (by others) from a master version sent from the United States. The court rejected Microsoft’s argument (and the dissent’s view) that liability under Section 271(f) should not attach to the copies because the copies were not “supplied” from the United States (per the statutory requirement)--i.e., the act of supplying is separate and distinct from copying, reproducing, or manufacturing such that one act of supplying cannot create liability for multiple acts of copying. The issue was “whether software replicated abroad from a master version exported from the United States--with the intent that it be replicated--may be deemed ‘supplied’ from the United States for the purposes of § 271(f).” Thus, the judgment turned on the meaning of the statutory word “supplies.” The court held: “Copying, therefore, is part and parcel of software distribution. Accordingly, for software ‘components,’ the act of copying is subsumed in the act of ‘supplying,’ such that sending a single copy abroad with the intent that it be replicated invokes § 271(f) liability for those foreign-made copies.” Microsoft argued that liability should only attach to the disks actually shipped from the United States and incorporated into a foreign-assembled computer. The court responded: “We reject this theory of liability as it fails to account for the realities of software distribution. ‘[T]he appellate process is not a mere academic exercise,’ Rosemount, Inc. v. Beckman Instruments, Inc., 727 F.2d 1540, 1543 (Fed. Cir. 1984), and we cannot disregard the nature of the relevant technology and business practices underlying a particular litigation. It is inherent in the nature of software that one can supply only a single disk that may be replicated--saving material, shipping, and storage costs--instead of supplying a separate disk for each copy of the software to be sold abroad. All of such resulting copies have essentially been supplied from the United States.” In addition, “whether software is sent abroad via electronic transmission or shipped abroad on a ‘golden master’ disk is a distinction without a difference for the purposes of § 271(f) liability. Liability under § 271(f) is not premised on the mode of exportation, but rather the fact of exportation.” Thus, electronic transmissions of software from the United States must receive the same treatment as software shipped from the United States on disks.

D. In *NTP, Inc. v. Research in Motion, Ltd.*, 392 F.3d 1336, 73 USPQ2d 1231 (Fed. Cir. 2004), *opinion withdrawn and replaced by NTP, Inc. v. Research in Motion, Ltd.*, 418 F.3d 1282, 75 U.S.P.Q.2d 1763 (Fed. Cir. 2005) (petition for panel rehearing granted for the limited purpose of revising portions of the opinion treating Section 271), the Federal Circuit rejected RIM’s contention that, for Section 271(a) to apply, the entire accused system must be contained or

conducted within the territorial bounds of the United States. The court acknowledged, “The territorial reach of section 271 is limited. Section 271(a) is only actionable against patent infringement that occurs within the United States.” The NTP “case presents an added degree of complexity, however, in that: (1) the ‘patented invention’ is not one single device, but rather a system comprising multiple distinct components or a method with multiple distinct steps; and (2) the nature of those components permits their function and use to be separated from their physical location.” Specifically, one claimed component--a BlackBerry relay or interface--of the accused system was located in Canada. “The question before us is whether the using, offering to sell, or selling of a patented invention is an infringement under section 271(a) if a component or step of the patented invention is located or performed abroad.” Proof of an infringing “use” of method claims requires evidence that all of the infringing steps occurred “within the United States.” Thus, the Federal Circuit held that there could be no infringement of the patentee’s method claims because some steps are carried out in Canada. The court distinguished system claims from method claims, however, and affirmed findings that various system claims were infringed by “use” of the BlackBerry system in the United States, even though some components of the accused system are also located in Canada. The court recognized that neither Section 271(a) nor the Supreme Court’s opinion in Deepsouth Packing Co. v. Laitram Corp., 406 U.S. 518, 173 USPQ 769 (1972), provides the answer where an accused system is partly within and partly outside the United States. The answer will be different for different types of infringing acts (making or using) and also for different types of claims (system and method). Citing Decca Ltd. v. United States, 544 F.2d 1070 (Ct. Cl. 1976), as “instructive” and providing “a legal framework for analyzing this case,” the court held that “use of a claimed system under section 271(a) is the place at which the system as a whole is put into service, i.e., the place where control of the system is exercised and beneficial use of the system is obtained.” But the concept of “use” of a patented method is fundamentally different from the use of a patented system or device: “Although the Supreme Court focused on the whole operable assembly of a system claim for infringement in Deepsouth, there is no corresponding whole operable assembly of a process claim. A method or process consists of one or more operative steps, and, accordingly, [i]t is well established that a patent for a method or process is not infringed unless all steps or stages of the claimed process are utilized.” Because a process is nothing more than the sequence of actions of which it is comprised, the use of a process necessarily involves doing or performing each of the steps recited. This is unlike use of a system as a whole, in which the components are used collectively, not individually. “We therefore hold that a process cannot be used ‘within’ the United States as required by section 271(a) unless each of the steps is performed within this country. In the present case, each of the asserted method claims of the ’960, ’172, and ’451 patents recites a step that utilizes an ‘interface’ or ‘interface switch,’ which is only satisfied by the use of RIM’s Relay located in Canada.” Accordingly, the court reversed the infringement judgment as to NTP’s method claims while affirming the infringement judgment as to NTP’s system claims and vacating the infringement

judgment as to claims with the erroneously construed claim term, “originating processor.”

E. In *Union Carbide Chems. & Plastics Tech. Corp. v. Shell Oil Co.*, 425 F.3d 1366, 76 U.S.P.Q.2d 1705 (Fed. Cir. 2005), the Federal Circuit held that the district court erred in prohibiting Union Carbide from submitting evidence of Shell’s foreign sales for the purpose of recovering additional damages under 35 U.S.C. § 271(f)(2) (based on the erroneous conclusion that 35 U.S.C. § 271(f) is not directed to process claims). The statutory phrase “any component of a patented invention” applies to components used in the performance of patented process/method inventions. Thus, § 271(f) applies to Shell’s exportation of catalysts (i.e., a “component”) used in the commercial production of ethylene oxide abroad (i.e., a “patented invention”) (the patent claimed a process for the production of EO). The court distinguished *NTP* “because Shell supplies catalysts from the United States directly to foreign customers . . . [and the case does not involve] the domestic sale of a component being used, in part, outside the United States.” *Eolas* “governs this case.” A petition for rehearing en banc in *Union Carbide Chems. & Plastics Tech. Corp. v. Shell Oil Co.*, 425 F.3d 1366, 76 U.S.P.Q.2d 1705 (Fed. Cir. 2005), was denied in a published order, 434 F.3d 1357, 77 U.S.P.Q.2d 1634 (Fed. Cir. 2006). Judges Lourie and Linn and Chief Judge Michel dissented from the denial, stating their position that Section 271(f) does not apply to method and process inventions.

***. **INEQUITABLE CONDUCT: HAS “THE PLAGUE” RETURNED?**

Answer: Yes!

I. BACKGROUND

A. Statute: 35 U.S.C. § 282 lists “unenforceability” as a defense to any action involving validity or infringement of a patent.

1. Aside from that reference, unenforceability is a judicially defined, equitable defense subject to requirements of Fed. R. Civ. P. 9(b) that all averments of fraud “shall be stated with particularity.” *Medimmune, Inc. v. Genentech, Inc.*, 427 F.3d 958, 967 (Fed. Cir. 2005).

2. The standard has changed over time and conduct is evaluated using the standard prevalent at the time in question.

3. Distinguish “unenforceability” from patentability or validity. A patent may be patentable (or not invalid) over a prior art reference, yet the application stricken or patent held unenforceable for failure to cite that reference.

4. There is little practical difference between the ultimate holdings of invalidity and unenforceability for a particular patent claim.

5. Note the relation of the “unclean hands” doctrine. “The court’s authority to render a patent unenforceable for inequitable conduct is founded in the equitable principle that ‘he who comes into equity must come with clean hands.’” *Precision Instrument Mfg. Co. v. Auto. Maint. Mach. Co.*, 324 U.S. 806, 814 (1945). Litigation misconduct may permit a district court to dismiss the complaint, but does not support holding the patent in suit unenforceable. *Aptix Corp. v. Quickturn Design Systems, Inc.*, 269 F.3d 1369, 1375 (Fed. Cir. 2001).

6. A patent is “unenforceable” upon a breach of the duty of disclosure.

B. Regulations: 37 C.F.R. §§ 1.56, 1.97, 1.98.

C. See Generally: 6 D. Chisum, Patents § 19.03 (2005); R. Harmon, Patents & the Federal Circuit § 9.5 (3d ed. 1994); 6 I. Kayton, Patent Practice ch. 25 (1989); MPEP ch. 2000.

II. THE DUTY OF DISCLOSURE

A. Who owes duty? Inventor(s), each attorney or agent who prepares or prosecutes the application, and every other individual who is substantively involved in preparation or prosecution of application who is associated with the inventor or assignee. Duty does not extend to clerks and secretaries.

B. To whom is duty owed? U.S. Patent and Trademark Office (PTO).

C. Why is there a duty? Patent prosecution is an ex parte proceeding. PTO does not have full research facilities and, therefore, relies heavily on prior art cited by applicants to judge patentability.

D. What is the duty? To disclose all information of which the applicant knows or should know is “material” to patentability. Information is material if (i) it may render, alone or in combination with other references, a claim unpatentable or (ii) it refutes, or is inconsistent with, a position taken by the applicant during prosecution. In certain circumstances, there is an affirmative duty to investigate.

E. When is duty owed?

1. It applies to all contacts with PTO during prosecution.

2. Areas of particular concern are: (a) statutory oath of inventorship (especially inventor’s attestation re: statutory bars such as prior public use), (b) failure to cite known material prior art (note no duty to search), (c) use of affidavits concerning date of invention (e.g., affidavit under Rule 131 which PTO usually accepts if sufficient on its face), (d) use of affidavits to present factual evidence on patentability (e.g., affidavit under Rule 132 which PTO usually relies upon as true), (e) disclosure of co-pending applications directed to similar subject matter to the examiners of each of the involved applications, (f) the existence of litigation and any other material information arising therefrom when the subject matter for which a patent is being sought is or has been involved in litigation, and (g) petitions to make special.

3. Note *A.B. Dick Corp. v. Burroughs Corp.*, 798 F.2d 1392 (Fed. Cir. 1986) (held patent unenforceable when applicant failed to disclose references even though examiner found and cited the references before the application issued).

4. Duty continues throughout prosecution of patent until issuance--even after issue fee is paid. May submit a supplemental Information Disclosure Statement. May withdraw application from issue.

F. What conduct breaches duty? Either an affirmative misrepresentation or submission (malfeasance) or an omission (nonfeasance) (i) of material information (ii) coupled with intent to deceive. Affirmative misrepresentations, in contrast to misleading omissions, are more likely to be regarded as material.

1. Note *Penn Yan Boats, Inc. v. Sea Lark Boats, Inc.*, 359 F. Supp. 948 (S.D. Fla. 1972), *aff’d*, 479 F.2d 1338 (5th Cir. 1973), *cert. denied*, 414 U.S. 874 (1974). Inequitable conduct found because reference was “buried” in a long list of references cited to PTO. Discussed in *Molins PLC v. Textron, Inc.*, 48 F.3d 1172 (Fed. Cir. 1995). MPEP § 2004 states: “It is desirable to avoid the submission of long lists of documents if it can be avoided.”

2. Note failure to cite reference cited during foreign prosecution of applications corresponding to U.S. application may breach duty. MPEP § 2001.06(a) (citing *Gemveto Jewelry Co., Inc. v. Lambert Bros., Inc.*, 216 USPQ 976 (S.D.N.Y. 1982)). *But see In re Harita*, 847 F.2d 801 (Fed. Cir. 1988); *Demaco Corp. v. F. von Langsdorf Lic.*, 851 F.2d 1387 (Fed. Cir. 1988).

3. Citation to a reference in a co-pending application does not suffice to meet duty in pending application; must re-file IDS. MPEP § 2001.06(b). *Gardco Mfg. Co. v. Herst Lighting Co.*, 820 F.2d 1209 (Fed. Cir. 1987).

4. Need not disclose cumulative or non-prior art and need not make a patentability search.

G. Can breach of duty be cured? Probably, before issuance, if certain conditions are met: point out omission or misrepresentation, advise of relevant facts, establish patentability anew. *Rohm & Haas Co. v. Crystal Chem. Co.*, 722 F.2d 1556, 1572 (Fed. Cir. 1983). See, e.g., *Bristol-Myers Squibb Co. v. Rhone-Poulenc Rorer, Inc.*, 326 F.3d 1226 (Fed. Cir. 2003); *Baxter Int'l, Inc. v. McGaw, Inc.*, 149 F.3d 1321 (Fed. Cir. 1998); *Fox Industries, Inc. v. Structural Preservation Systems, Inc.*, 922 F.2d 801 (Fed. Cir. 1990).

H. Consequence of breach?

1. Application stricken by PTO (but PTO no longer involved since 1988).

2. Entire patent held “unenforceable” even if inequitable conduct taints only one claim. Note related patents may also be held unenforceable (“infectious unenforceability”). *Pharmacia Corp. v. Par Pharm., Inc.*, 417 F.3d 1369 (Fed. Cir. 2005); *Baxter Int'l, Inc. v. McGaw, Inc.*, 149 F.3d 1321 (Fed. Cir. 1998); *Consolidated Aluminum Corp. v. Foseco Int'l Ltd.*, 910 F.2d 804 (Fed. Cir. 1990); K. Casey, “‘Infectious Unenforceability’: The Extent or Reach of Inequitable Conduct on Associated Patents,” 17 AIPLA Q.J. 338 (1989).

3. An award of increased damages (up to three times) under 35 U.S.C. § 284.

4. Finding case is “exceptional” and award of attorney’s fees under 35 U.S.C. § 285.

5. Affirmative recovery of damages under the antitrust laws if other elements of antitrust action exist. *Walker Process Equip. v. Food Mach. & Chem.*, 382 U.S. 172 (1965). For violation under Section 2 of Sherman Act, other elements include: (a) a specific intent to monopolize, and (b) a dangerous probability that the attempt would succeed in monopolizing the relevant market.

6. Disciplinary action against attorney or agent registered with PTO.

7. U.S. government may sue to cancel patent obtained through inequitable conduct.

8. Federal Trade Commission may sue under FTCA to order compulsory licensing of patent procured through inequitable conduct.

9. If conduct constitutes “fraud” (may be more egregious than inequitable conduct and requires intentional or reckless act, reliance, and injury) (but fraud only encompasses misrepresentation, not omission, and may be negated by subjective good faith), licensee may recover royalties already paid under license after licensed patent is held unenforceable. Such recovery is not permitted if patent is merely held invalid or unenforceable.

I. How is duty satisfied? Submit an Information Disclosure Statement (IDS). 37 C.F.R. §§ 1.97-98. PTO encourages (not mandatory) applicant to submit IDS at filing or within 3 months of filing or, upon payment of a fee, after

filing but before final action or notice of allowance. The IDS must merely list references and include copies of non-U.S. patent references. A brief statement of their relevance is required if the reference is not in English.

III. ENFORCEMENT

A. The PTO has stated that it will no longer investigate and reject original or reissue applications under Rule 56. 1095 Official Gazette 16 (Oct. 11, 1988). Reason: PTO is an inappropriate forum to determine intent to deceive.

B. Courts enforce the duty of disclosure. May bifurcate trial and try issue of inequitable conduct (even without jury in a jury trial) first. Burden is on party challenging patent allegedly procured in breach of the duty to prove inequitable conduct by clear and convincing evidence.

1. Party must prove threshold levels of both materiality and intent to deceive. Mere negligence or an error in judgment never suffices for inequitable conduct. Intent may be inferred from circumstances; direct proof not required.

2. Confusion over materiality standard. In *Digital Control, Inc. v. The Charles Mach. Works*, 437 F.3d 1309, 1315-16 (Fed. Cir. 2006), the Federal Circuit identified three different standards of materiality adopted by the courts (objective “but for,” subjective “but for,” and “but it may have”), the standard adopted by PTO Rule 56 in 1977 (deemed “an appropriate starting point for any discussion of materiality, for it appears to be the broadest, thus encompassing the others”), and the current PTO Rule 56 standard (adopted in 1992).

3. With respect to intent, “in the absence of a credible explanation, intent to deceive is generally inferred from the facts and circumstances” *Ferring B.V. v. Barr Laboratories, Inc.*, 437 F.3d 1181, 1191 (Fed. Cir. 2006) (emphasis in original) (affirming summary judgment grant of unenforceability).

4. Once the threshold levels have been proven, the court balances all the circumstances. Such circumstances include evidence of good faith. Materiality and intent affect each other: the more material the omission or misrepresentation, the less intent required and vice versa.

C. Appellate review. Underlying questions of materiality and intent are factual and reviewed under “clearly erroneous” (judge) or “substantial evidence” (jury) standard. Balance and ultimate holding are equitable, reviewed under “abuse of discretion” standard. *Kingsdown Medical Consultants, Ltd. v. Hollister, Inc.*, 863 F.2d 867, 876 (Fed. Cir. 1988) (in banc).

IV. HISTORY: A “PLAGUE”

A. 1984: Inequitable conduct “has been overplayed, is appearing in nearly every patent suit, and is cluttering up the patent system.” *Kimberly-Clark Corp. v. Johnson & Johnson*, 745 F.2d 1437, 1454 (Fed. Cir. 1984). Inequitable conduct is a “much-abused and too often last-resort allegation.” *Preemption Devices, Inc. v. Minnesota Min. and Mfg. Co.*, 732 F.2d 903, 908 (Fed. Cir. 1984).

B. 1987-88: “‘Inequitable conduct’ is not, or should not be, a magic incantation to be asserted against every patentee.” *FMC Corp. v. Manitowoc Co.*,

835 F.2d 1411, 1415 (Fed. Cir. 1987). “[T]he habit of charging inequitable conduct in almost every major patent case has become an absolute plague.” *Burlington Indus., Inc. v. Dayco Corp.*, 849 F.2d 1418, 1422 (Fed. Cir. 1988).

C. 1990-2004: A relative lull. See L. Dolak, “The Inequitable Conduct Doctrine: Lessons from Recent Cases,” 84 J. Pat. & Trademark Office Soc’y 719 (2002) (collecting cases providing examples of bases for allegations of inequitable conduct).

V. 2005-06: THE “PLAGUE” RETURNS

A. *Novo Nordisk Pharms., Inc. v. Bio-Technology Gen. Corp.*, 424 F.3d 1347 (Fed. Cir. 2005). The Federal Circuit upheld the district court’s decision to hold a patent unenforceable for inequitable conduct because the patent misrepresented (using the “past tense”) that an experiment summarized as an Example had actually been conducted when the experiment had not been conducted.

B. *Purdue Pharma L.P. v. Endo Pharmaceuticals Inc.*, 438 F.3d 1123 (Fed. Cir. 2006) (vacating district court judgment of inequitable conduct and remanding for a renewed application of the balancing step).

C. *TAP Pharmaceutical Products, Inc. v. OWL Pharmaceuticals, L.L.C.*, 419 F.3d 1346 (Fed. Cir. 2005) (affirming district court’s rejection of inequitable conduct challenge because the non-disclosed information was merely cumulative in light of other references considered by the examiner and, therefore, the information was not material).

D. *M. Eagles Tool Warehouse, Inc. v. Fisher Tooling Co., Inc.*, 439 F.3d 1335 (Fed. Cir. 2006) (“Because there was no clear and convincing evidence demonstrating an intent to engage in inequitable conduct, we reverse the district court’s grant of S&G’s motion for summary judgment of inequitable conduct.”). The patentee failed to disclose a device, allegedly material prior art, that it had been selling for 20 years. The district court improperly inferred intent to deceive the PTO solely from the applicant’s nondisclosure of the device.

E. *Digital Control, Inc. v. The Charles Mach. Works*, 437 F.3d 1309 (Fed. Cir. 2006) (clarified materiality standard) (affirming partial grant of summary judgment on the materiality of misstatements in a Rule 131 declaration, reversing the partial grant of summary judgment on the materiality of a non-disclosed reference, vacating the determination of inequitable conduct, and remanding).

F. *Ferring B.V. v. Barr Laboratories, Inc.*, 437 F.3d 1181 (Fed. Cir. 2006). The Federal Circuit stated a relatively unequivocal rule: “the inventor must disclose the known relationships and affiliations of the [Rule 132] declarants so that those interests can be considered in weighing the declarations.” The court upheld summary judgment of unenforceability for inequitable conduct based, in large part, on the applicant’s submission of Rule 132 declarations that failed to disclose relationships between the declarants (world-known and respected scientists) and the assignee (even though the technical point addressed by the declarants was uncontroversial).

G. *Bruno Indep. Living Aids, Inc. v. Acorn Mobility Servs., Ltd.*, 394 F.3d 1348 (Fed. Cir. 2005) (inequitable conduct based on failure to disclose to the PTO art that had been disclosed to the FDA).

H. *Frazier v. Roessel Cine Photo Tech, Inc.*, 417 F.3d 1230 (Fed. Cir. 2005) (the district court clearly erred in finding an undisclosed Roessel advertisement material to the prosecution of Frazier's patent application (so reversed the inequitable conduct determination based on that finding) but affirmed the district court's remaining inequitable conduct determination based on the submission of a misleading video).

I. *Warner-Lambert Co. v. Teva Pharm. USA, Inc.*, 418 F.3d 1326 (Fed. Cir. 2005) (affirmed the district court decision holding a patent not unenforceable; although the district court had found that the applicant failed to disclose a highly material reference, the court concluded that there was no deceptive intent).

J. *Pharmacia Corp. v. Par Pharm., Inc.*, 417 F.3d 1369 (Fed. Cir. 2005) (affirmed the district court's decision to hold a patent unenforceable; the applicant had submitted a Rule 132 declaration that included inaccurate statements, shown to be inconsistent with an article co-authored by the declarant, and the applicant did not disclose the article to the PTO).

K. *Kao Corp. v. Unilever United States, Inc.*, 441 F.3d 963, 78 U.S.P.Q.2d 1257 (Fed. Cir. 2006) (affirmed rejection of inequitable conduct charge based on submission of misleading test results in a Rule 132 declaration; lack of requisite intent to deceive).

VI. THE FUTURE

A. The proper conduct of patent attorneys and inventors when dealing with the PTO remains in dispute.

B. The PTO previously proposed a new Rule 57 which would have changed the definition of "material" information to information which, "but for" its nondisclosure, would have rendered the claims unpatentable. The Rule was withdrawn because the PTO feared it would reduce the important information received from applicants. The ABA PCT Section supported the proposed change, because it would reduce the burden on applicants, and passed a resolution which recommended that the proposal be renewed. *See* A. Gandhi, "The Fate of the Rule 56 Materiality Standard in the Inequitable-Conduct Inquiry," 33 AIPLA Q.J. 125 (Spring 2005) (proposing a "but for" materiality standard in conjunction with a mandatory prior art search).

C. Bottom Line: The issue of inequitable conduct is in flux. *GFI, Inc. v. Franklin Corp.*, 265 F.3d 1268, 1274 (Fed. Cir. 2001) ("It is axiomatic that '[c]lose cases should be resolved by disclosure, not unilaterally by applicant.'") (citing LaBounty and affirming holding of inequitable conduct).

"Be careful out there!"

PROSECUTION LACHES: LEMELSON

Prosecution laches will not present an issue absent “egregious cases of misuse of the statutory patent system,” an equitable standard applied in view of the totality of the circumstances.

A. THE DISTRICT COURT: In *Symbol Technologies, Inc. v. Lemelson Medical, Education & Research Foundation, L.P.*, 301 F. Supp. 2d 1147, 69 U.S.P.Q.2d 1738 (D. Nev. 2003), the district court invoked prosecution history laches to hold that Lemelson’s 18 to 39-year delay was unreasonable and unjustified. The Court also noted that, after Lemelson’s first patent issued in 1963, the public was allowed to assume that unclaimed matter was dedicated to the public per *Maxwell v. Baker*. Also, all the claims that were pending in 1972 had issued by 1987, so that should have been the end of things. Also: (1) the original patents became public in the 60s and expired in the 80s, (2) the technology was widely described in the literature before Lemelson added the claims, (3) Lemelson knew about the industry and still waited, (4) Mr. Lemelson systematically extended the pendency of his applications by sitting on his rights, and sequentially filing one application at a time so that he could maintain copendency while waiting for viable commercial systems to be designed and marketed, and (5) he then drafted hundreds of claims in the 80s and 90s specifically directed at the new systems. Symbol did not have to show that Lemelson “intentionally stalled” any applications. At a minimum, this was “culpable neglect.” The prejudice occurred to the public and to Symbol. Statistically, out of 5 million applications from 1914 to 2001, Lemelson holds the top 13 spots for length of pendency. A quote: “If the defense of prosecution laches does not apply under the totality of circumstances presented here, the Court can envision very few circumstances under which it would.” The Court also rejected legal expert John Witherspoon’s testimony that Lemelson followed “accepted and reasonable practices.” There was also strong evidence of intervening private and public rights.

B. THE FEDERAL CIRCUIT: The Federal Circuit affirmed the district court’s invocation of prosecution history laches in *Symbol Technologies, Inc. v. Lemelson Medical, Education & Research Foundation, L.P.*, 422 F.3d 1378, 76 U.S.P.Q.2d 1354 (Fed. Cir. 2005). The key fact was Lemelson’s 18 to 39-year delay in filing and prosecuting the asserted claims under 14 patents-in-suit. With respect to the law, the Federal Circuit stated: “Thus, there are no strict time limitations for determining whether continued refiling of patent applications is a legitimate utilization of statutory provisions or an abuse of those provisions. The matter is to be decided as a matter of equity, subject to the discretion of a district court before which the issue is raised. . . . The doctrine should be applied only in egregious cases of misuse of the statutory patent system.” The court listed a number of “safe harbors,” identifying certain actions which normally do not risk

prosecution laches: (1) it cannot, without more, be an abuse of the system to file divisional applications in response to a restriction requirement; (2) one might legitimately refile an application containing rejected claims in order to present evidence of unexpected advantages of an invention when that evidence may not have existed at the time of an original rejection; (3) one might refile an application to add subject matter in order to attempt to support broader claims as the development of an invention progresses; and (4) one may also refile an application even in the absence of any of these first three reasons, provided that such refiling is not unduly successive or repetitive. “Taken singly, the delay in the prosecution on any one particular application will surely not appear to merit relief by the courts in equity. On the other hand, an examination of the totality of the circumstances, including the prosecution history of all of a series of related patents and overall delay in issuing claims, may trigger laches.”

C. OH, BY THE WAY: In a subsequent order in the same case, a petition for panel rehearing was granted for the limited purpose of amending the earlier opinion. The Federal Circuit clarified that its laches holding applied to all of the claims in the 14 asserted patents because all of the claims are purportedly supported by the same specification with the same effective filing dates “in this exceptional case.” *Symbol Technologies, Inc. v. Lemelson Medical, Education & Research Foundation, L.P.*, 429 F.3d 1051 (Fed. Cir. 2005) (Order).

ANTITRUST/MISUSE: INDEPENDENT INK + PHILIPS

Two recent decisions may allow greater flexibility in patent licensing; they reflect increased acceptance of tying arrangements that require the purchase of a non-patented commodity in order to purchase a patented product--unless the licensor has market power--and of patent pooling arrangements.

A. INDEPENDENT INK: Trident, a division of Illinois Tool Works, manufactures printing systems that included both patented print head and ink containers and unpatented ink. Independent Ink, a competing manufacturer of ink, alleged that Trident conditioned the sale of its patented print head systems (the “tying” product) upon the purchase and distribution of its non-patented ink (the “tied” product) and that such an arrangement prevented original equipment manufacturers (“OEMs”) and end users from purchasing ink from third parties, thereby restraining trade in violation of Section 1 of the Sherman Act. The district court had granted summary judgment in favor of Illinois Tool Works, rejecting the notion that the existence of a patent on a product automatically demonstrated market power and established a *per se* violation. The Court of Appeals for the Federal Circuit reversed, invoking International Salt Co. and its duty to follow Supreme Court precedent until the Supreme Court itself overruled it. The Supreme Court took this invitation in granting *certiorari*.

1. The Federal Circuit: In Independent Ink, Inc. v. Illinois Tool Works, Inc., 396 F.3d 1342, 73 U.S.P.Q.2d 1705 (Fed. Cir. 2005), *vacated and remanded*, 126 S. Ct. 1281, 77 U.S.P.Q.2d 1801 (2006) (see below), the Federal Circuit addressed “an explicit tying agreement conditioning the sale of a patented product (the printhead covered by the ‘226 patent (and possibly other patents as well)) on the sale of an unpatented one (the ink)” and stated: “The district court granted summary judgment on plaintiff Independent’s Sherman Act section 1 claim because Independent had failed to produce any evidence of market power over the tying product. Indep. Ink, Inc. v. Trident, Inc., 210 F. Supp. 2d 1155 (C.D. Cal. 2002). We hold that a rebuttable presumption of market power arises from the possession of a patent over a tying product. Because no rebuttal evidence was submitted by the patent holder, we reverse the grant of summary judgment on the Sherman Act section 1 claim and remand for further proceedings. As to Independent’s Sherman Act section 2 claim, we affirm the district court’s grant of summary judgment.” The Federal Circuit “conclude[d] that the antitrust consequences of patent tying . . . is a question governed by our law” but cautioned, quoting Nobelpharma AB v. Implant Innovations, 141 F.3d 1059, 1067-68 (Fed. Cir. 1998), that ‘we will continue to apply the law of the appropriate regional circuit to issues involving other elements of antitrust law,’ such as defining the relevant market and determining as a factual matter whether power exists within that market.” (Tying as a misuse defense in patent cases is

governed by statute, namely 35 U.S.C. § 271(d)(5) (2000), and does require proof of actual market power.) Relying primarily upon Int'l Salt Co. v United States, 332 U.S. 392 (1947), and United States v. Loew's, Inc., 371 U.S. 38 (1962), which the court acknowledged have “been subject to heavy criticism,” the Federal Circuit held: “patent and copyright tying, unlike other tying cases, do not require an affirmative demonstration of market power. Rather, International Salt and Loew's make clear that the necessary market power to establish a section 1 violation is presumed. . . . We conclude that the Supreme Court has held that there is a presumption of market power in patent tying cases, and we are obliged to follow the Supreme Court's direction in this respect. The time may have come to abandon the doctrine, but it is up to the Congress or the Supreme Court to make this judgment.” Until then, however, “a patent presumptively defines the relevant market as the nationwide market for the patented product itself, and creates a presumption of power within this market. Once the plaintiff establishes a patent tying agreement, it is the defendant's burden to rebut the presumption of market power and consequent illegality that arises from patent tying. . . . On the present record there is not sufficient evidence to rebut the presumption of market power resulting from the patent itself, or to create a genuine issue of material fact on the issue.” With respect to the Section 2 claim, the Federal Circuit noted that, to establish an attempted monopolization claim, plaintiff must demonstrate that the defendant had specific intent to monopolize a relevant market and a “dangerous probability of success.” “In section 2 cases, the plaintiff bears the burden of defining the market and proving defendant's power in that market.” Plaintiff made only conclusory allegations in this case and, therefore, failed to raise a genuine issue of material fact as to the section 2 claim.

2. The Supreme Court: The United States Supreme Court in *Illinois Tool Works Inc. v. Independent Ink, Inc.*, 547 U.S. xxx, 126 S. Ct. 1281, 77 U.S.P.Q.2d 1801 (2006), unanimously held that the mere existence of a patent does not automatically confer market power upon a patentee, and that in cases involving an alleged tying arrangement, market power in the tying product must be supported by proof rather than a mere presumption. The Court thus rejected the per se rule founded in International Salt Co. v. United States, 332 U.S. 392 (1947), and its progeny that a contract to sell a patented product on condition that the purchaser buy an unpatented good from the patentee is a violation of Section 1 of the Sherman Act, 15 U.S.C. § 1. (The Court also discussed the other three historical bases for challenging tying arrangements: the patent misuse doctrine, unfair methods of competition under Section 5 of the FTC Act, 15 U.S.C. § 45, and contracts tending to create a monopoly under Section 3 of the Clayton Act, 15 U.S.C. § 13a.) The “essential characteristic of an invalid tying arrangement lies,” the Court stated, “in the seller's exploitation of its control over the tying product to force the buyer into the purchase of a tied product that the buyer either did not want at all or might have preferred to purchase elsewhere on different terms.”

The Supreme Court determined that the presumption of market power given to a patented product has its foundation in the judicially created patent misuse doctrine as demonstrated in the case of Morton Salt Co. v. G. S. Suppiger Co., 314 U.S. 488 (1942) (finding that the patentee was restraining competition by tying the

purchase of unpatented goods to the sale of patented goods without even discussing the market conditions). This presumption of market power was transferred from the patent misuse application to the antitrust arena in *International Salt Co.* The Court thus examined the development of the patent misuse doctrine over the years, as well as Congress's enactment of 35 U.S.C. 271(d)(5) to eliminate the market power presumption in patent misuse cases, and stated that such development "certainly invites a reappraisal of the per se rule announced in *International Salt*." The Court determined that, because the basis for the presumption in the antitrust context was the misuse doctrine, it would be anomalous to preserve the presumption in the antitrust context when its basis had been eliminated. The Supreme Court concluded: "After considering the congressional judgment reflected in the 1988 amendment, we conclude that tying arrangements involving patented products should be evaluated under the standards applied in cases like [*United States Steel Corp. v. Fortner Enterprises, Inc.*, 429 U. S. 610 (1972)] and [*Jefferson Parish Hospital District No. 2 v. Hyde*, 466 U.S. 2 (1984)] rather than under the per se rule applied in [*Morton Salt Co. v. G. S. Suppiger Co.*, 314 U.S. 488 (1942)] and [*United States v. Loew's, Inc.*, 371 U.S. 38 (1962)]. While some such arrangements are still unlawful, such as those that are the product of a true monopoly or a marketwide conspiracy, see, e.g., *United States v. Paramount Pictures, Inc.*, 334 U. S. 131, 145–146 (1948), that conclusion must be supported by proof of power in the relevant market rather than by a mere presumption thereof."

B. PHILIPS: *U.S. Philips Corporation v International Trade Commission*, 424 F.3d 1179, 76 U.S.P.Q.2d 1545 (Fed. Cir. 2005). The Commission held six of Philips's patents for the manufacture of compact discs to be unenforceable because of patent misuse per se, ruling that Philips had employed an impermissible tying arrangement because it required prospective licensees to license packages of patents rather than allowing them to choose which individual patents they wanted to license. Certain patents in the pool of licensed patents were categorized as "essential" to practice the technology; others, "non-essential." Philips gave licensees the option of using any of the patents in the package, at the licensee's option, and did not require the licensees to actually use the technology covered by any of the patents.

The Federal Circuit reversed and remanded, although it sustained the ruling that Philips has market power in the relevant market. The court distinguished *Independent Ink, Inc. v. Illinois Tool Works, Inc.*, 396 F.3d 1342 (Fed. Cir.) *vacated & remanded*, 547 U.S. xxx, 126 S. Ct. 1281, 77 U.S.P.Q.2d 1801 (2006) (see above), as inapplicable in the case of patent misuse in view of 35 U.S.C. § 271(d)(5) (providing a safe harbor against the charge of patent misuse). The court also distinguished Supreme Court cases, *United States v. Paramount Pictures, Inc.*, 334 U.S. 131, 156-59 (1948), and *United States v. Loew's, Inc.*, 371 U.S. 38, 44-51 (1962), holding that "block-booking" of movies to theaters or television stations is an antitrust violation ("Block-booking is the practice in which a distributor licenses one feature or group of features to exhibitors on the condition

that the exhibitors agree to license another (presumably inferior) feature or group of features released by the distributor during a given period.”) because block-booking is “more akin to a tying arrangement in which a patent license is tied to the purchase of a separate product, rather than to an arrangement in which a patent license is tied to another patent license.”

The Federal Circuit found a “fundamental difference between an obligation to purchase a product and the extension of a nonexclusive license to practice a patent. A nonexclusive patent license is simply a promise not to sue for infringement. The conveyance of such a license does not obligate the licensee to do anything; it simply provides the licensee with a guarantee that it will not be sued for engaging in conduct that would infringe the patent in question. . . . [The arrangement] does not compel the customer to use the patentee’s technology. The package license is thus not anticompetitive in the way that a compelled purchase of a tied product would be.”

The Federal Circuit touted the competitive advantages of package licensing, which “reduces transaction costs by eliminating the need for multiple contracts and reducing licensors’ administrative and monitoring costs. See Tex. Instruments, Inc. v. Hyundai Elecs., 49 F. Supp. 2d 893, 901 (E.D. Tex. 1999) (describing how ‘extremely expensive and time-consuming’ it is for parties to license and manage the licensing of technology by using individual patents and how it is preferable to employ a patent portfolio). Package licensing can also obviate any potential patent disputes between a licensor and a licensee and thus reduce the likelihood that a licensee will find itself involved in costly litigation over unlicensed patents with potentially adverse consequences for both parties, such as a finding that the licensee infringed the unlicensed patents or that the unlicensed patents were invalid. See Steven C. Carlson, Patent Pools and the Antitrust Dilemma, 16 Yale J. on Reg. 359, 379-81 (1999). Thus, package licensing provides the parties a way of ensuring that a single licensing fee will cover all the patents needed to practice a particular technology and protecting against the unpleasant surprise for a licensee who learns, after making a substantial investment, that he needed a license to more patents than he originally obtained. Finally, grouping licenses in a package allows the parties to price the package based on their estimate of what it is worth to practice a particular technology, which is typically much easier to calculate than determining the marginal benefit provided by a license to each individual patent. In short, package licensing has the procompetitive effect of reducing the degree of uncertainty associated with investment decisions.”

The Federal Circuit held that the analysis of the Commission, applying the rule of per se illegality to Philips’s packaging licensing arrangements, was “legally flawed.” The court also disagreed with the Commission’s analysis under the rule of reason. “Patents within a patent package can be regarded as ‘nonessential’ only if there are ‘commercially feasible’ alternatives to those patents. . . . In this case, the evidence did not show that there were commercially viable substitutes for the . . . four ‘nonessential’ patents [Moreover,] ‘the line between competitive patents and blocking or complementary patents is frequently very

difficult to draw' . . . [Finally,] changes in the technology for manufacturing compact discs could render some patents that were indisputably essential at the time of licensing arguably nonessential at some later point in the life of the license." (The parties did not raise the point that the non-essential patents were due to expire after the essential patents, arguably extending the obligation to pay royalties beyond the expiration of the essential patents and, therefore, the court did not address that issue.)

QUOTABLE QUOTATIONS

A. In *Perricone v. Medicis Pharm. Corp.*, 432 F.3d 1368, 77 U.S.P.Q.2d 1321 (Fed. Cir. 2005), the Federal Circuit rejected a hypothetical situation proposed by a party to support its position, stating: “Yes, and if the court had a brother, he might like buttermilk. In other words, this tortured hypothetical does not correspond to the record in this case.”

B. In *AT&T Corp. v. Microsoft Corp.*, 414 F.3d 1366, 75 U.S.P.Q.2d 1506 (Fed. Cir. 2005), the court stated: “We reject this theory of liability as it fails to account for the realities of software distribution. ‘[T]he appellate process is not a mere academic exercise,’ Rosemount, Inc. v. Beckman Instruments, Inc., 727 F.2d 1540, 1543 (Fed. Cir. 1984), and we cannot disregard the nature of the relevant technology and business practices underlying a particular litigation.”