

ABA SECTION OF INTELLECTUAL PROPERTY LAW

25TH Annual Intellectual Property Law Conference

The Year in Patent Law

Thursday, April 8, 2010

Intellectual Property law, and patent law in particular, has seen some significant changes and developments in the past year. This review will briefly touch on some of those developments, which include the Supreme Court's first substantive review of patent eligible subject matter under Section 101 in quite some time, the scope of Section 271(f) of the Patent Act in international commerce, international exhaustion, the Federal Circuit's expansion of inequitable conduct, the Federal Circuit's consideration of a separate written description requirement, the Federal Circuit's clarification of the formula to calculate patent term adjustment, and the status of the law on patent damages.

An expert panel will discuss each of these topics and their potential impact on different technologies and industries in more detail at the conference. The panel members include:

1. Sherry Knowles, Senior Vice President & Chief Intellectual Property Counsel, GlaxoSmithKline, King of Prussia, PA;
2. Ami Shah, Sr. Patent Attorney and Chair of Intel's Global Wireless Patent Portfolio, Chantilly, VA;
3. Timothy Holbrook, Professor at Emory University, Atlanta, GA; and
4. Denise DeFranco, Partner, Finnegan, Henderson, Farabow, Garrett & Dunner LLP, Cambridge, MA

The panel moderator is Kevin Casey, Chair of the IP Group, Stradley, Ronon, Stevens & Young, LLP, Philadelphia, PA.

1. ***In re Bilski*, 545 F.3d 943 (Fed. Cir. 2008), cert. granted, --- U.S. ----, 129 S. Ct. 2735, 174 L. Ed. 2d 246 (2009)**

In October 2008, the Federal Circuit issued an *en banc* decision in *In re Bilski*, related to statutory subject matter under Section 101 of the patent statute. In June 2009, the U.S. Supreme Court granted *certiorari*, and in November 2009 heard oral arguments in the case, now captioned *Bilski v. Kappos*. The Supreme Court has not yet handed down a decision.

In its *Bilski* decision, the Federal Circuit established that “A claimed process is surely patent-eligible under section 101 if: (1) it is tied to a particular machine or apparatus, or (2) it transforms a particular article into a different state or thing.” *Bilski* appealed, arguing that this test conflicts with Supreme Court precedent (*e.g.*, *Gottschalk v. Benson*, 409 U.S. 63 (1972) and *Parker v. Flook*, 437 U.S. 584 (1978)). Additionally, *Bilski* argued that the Federal Circuit’s machine-or-transformation test is inconsistent with Section 273 of the patent statute and its legislative history. Section 273 implicitly recognizes business method patents by providing a prior user defense with respect to them, and the legislative history of that section indicates that Congress embraced the “useful, concrete, and tangible result” test of *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, 149 F.3d 1368 (Fed. Cir. 1998).

The U.S. PTO argued that the machine-or-transformation test is an appropriate test to ensure that only technological and industrial methods are patented and that the Constitutional mandate of the patent system is being fulfilled, namely, promoting the progress of the useful arts. The government further argued that the claim at issue is simply directed to a method of organizing human behavior and should not be patentable.

During oral arguments, the Supreme Court justices asked numerous questions regarding the outer bounds of patent eligible subject matter, including whether the following methods should be eligible for patent protection: use of the alphabet, estate planning, tax avoidance, choosing a jury, teaching antitrust law, speed dating, and the like. The Court has given no indication as to whether it would uphold the Federal Circuit’s machine-or-transformation test or establish another test.

Three additional cases addressing the scope of statutory subject matter have been petitioned and briefed before the U.S. Supreme Court in the wake of *Bilski*, but the Court has yet to grant or deny *certiorari* in any of them.. These cases include:

- (1) *In re Ferguson*, 558 F.3d 1359 (Fed. Cir. 2009) (holding claims directed to a marketing method do not satisfy the machine-or-transformation test);
- (2) *Classen Immunotherapies, Inc. v. Biogen IDEC*, 2008 WL 5273107 (Fed. Cir. Dec. 19, 2008) (holding claims directed to a method of determining an appropriate vaccination schedule do not satisfy the machine-or-transformation test); and
- (3) *Prometheus Labs. Inc. v. Mayo Collaborative Service*, 581 F.3d. 1336 (Fed. Cir. 2009)(holding claims directed to a method of treatment do satisfy the machine-or-transformation test because such claims are “always transformative”).

Perhaps the Supreme Court is holding these three cases until after it decides *Bilski*. If the *Bilski* decision enunciates a new test for patent eligible subject matter or sheds any light on how the Federal Circuit’s machine-or-transformation test should be applied, the Supreme Court would then be in a position with respect to each of these three pending cases to grant *certiorari*, to reverse the Federal Circuit’s decision, and to remand to the Federal Circuit for application of the principles enunciated in the *Bilski* decision.

2. ***Cardiac Pacemakers, Inc. v. St. Jude Medical, Inc.*, 576 F.3d 1348 (Fed. Cir. 2009)**

In *Cardiac Pacemakers, Inc. v. St. Jude Medical, Inc.*, 576 F.3d 1348 (Fed. Cir. 2009), the *en banc* Federal Circuit addressed the question of whether section 271(f) of the patent statute applies to method claims. Section 271(f) provides:

(1) Whoever without authority supplies in or from the United States, all or a substantial portion of the components of a patent 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.

The invention in *Cardiac Pacemakers* was a method of heart stimulation using an implantable heart stimulator that was capable of detecting a heart arrhythmia and being programmed to treat the arrhythmia. The Section 271(f) issue arose in the context of damages. Particularly, the District Court had allowed the patent holder to collect damages based on sales of defibrillators both in the U.S. and for export abroad under Section 271(f). *Id.* at 1351. The District Court stated that it was following the holding of *Union Carbide Chemicals & Plastics Technology Corp. v. Shell Oil Co.*, 425 F.3d 1366 (Fed. Cir. 2005), which had held that Section 271(f) applies to method claims.

In *Cardiac Pacemakers*, the *en banc* court overruled the decision in *Union Carbide* and held that section 271(f) does not apply to method claims. The Court based its analysis on the “language of Section 271(f), its legislative history, and the provisions in place in the overall statutory scheme.” 576 F.3d at 1365. First, the Court noted that Section 271(f) requires a “component,” and although method claims have “components,” the components of a method claim are the steps that comprise the method, not the physical components used in the performance of the method. *Id.* at 1363.

The Court also looked to Section 271(c) of the patent statute related to contributory infringement. The court noted the contrasting treatment between tangible inventions (*i.e.*, referring to “component of a patented machine, manufacture, combination, or process”) and method inventions (*i.e.*, referring to “material or apparatus for use in practicing a patented process”). The Court rationalized that Congress clearly believed that a “component” was different from a “material for use in practicing a patented process.”

Additionally, the Court relied on the use of the term “supplied” in Section 271(f), which the Court found to “imply the transfer of a physical object,” not an intangible step in a method. Likewise, the Court relied on language in the Senate Report in connection with the adoption of Section 271(f) suggesting that the provision was intended to apply to product patents.

Finally, the Court relied on the presumption against extraterritorial application of U.S. law to conclude that Section 271(f) should be construed narrowly.

3. International Exhaustion (*Omega S.A. v. Costco Wholesale Corp.*, 541 F.3d 982 (9th Cir. 2008))

A petition for a writ of *certiorari* has been filed in this important case, and the Supreme Court has called for the views of the Solicitor General. The government has not filed a brief as of yet in response to the Court's request.

The case involves gray market goods and the nature of the exhaustion of copyright in the United States. Specifically, at issue is whether foreign sales of a copyrighted item exhaust the U.S. copyright, or whether only domestic sales exhaust the U.S. rights.

The undisputed facts of this case are that Costco obtained Omega's watches overseas through a chain of purchases. Omega manufactured and sold the watches overseas. "Unidentified third parties eventually purchased the watches and sold them to ENE Limited, a New York company, which in turn sold them to Costco." Costco then sold the watches to consumers in California. Omega did not authorize the importation of these watches back into the United States.

The Ninth Circuit concluded that there is infringement in this context and rejected Costco's assertion of the first sale doctrine and, thus, a rule of international exhaustion.

Unlike patent law, the "first sale" doctrine is codified in the Copyright Act. Specifically the Section 109(a) Act notes "[n]otwithstanding the provisions of Section 106(3), the owner of a particular copy . . . lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy" (Emphasis added.)

Thus, the issue is whether foreign manufactured and sold copyrighted items are "lawfully made" under U.S. copyright law. Earlier Ninth Circuit case law articulated a strong domestic exhaustion rule, so such foreign items would not trigger Section 109(a). An intervening Supreme Court decision, *Quality King Distribs., Inc. v. L'anza Res. Int'l, Inc.*, 523 U.S. 135 (1998), required that the panel reassess the Court's earlier domestic exhaustion rule.

The Court decided, however, that *Quality King* did not alter the Circuit's rule. *Quality King* involved a "round trip" importation, where a U.S. copyrighted work was manufactured in the United States, exported to an authorized foreign distributor, sold to unidentified third parties

overseas, and shipped back into the United States without the copyright owner's permission. This "round trip" of goods did trigger exhaustion of the U.S. copyright but does not answer the question here, where the goods were made outside of the United States. Indeed, Justice Ginsburg in her concurrence in *Quality King* specifically left the question presented in this case open.

Unlike the Copyright Act, exhaustion doctrine in patent law has not been codified. Nevertheless, given that the Supreme Court has frequently mentioned the historic kinship between copyright and patent law, and courts have used patent precedent to inform copyright doctrine, as in *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913 (2005); *Eldred v. Ashcroft*, 537 U.S. 186 (2003); *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417 (1984), and vice-versa, see *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006); *DSU Medical Corp. v. JMS Co., Ltd.*, 471 F.3d 1293 (Fed. Cir. 2006) (*en banc*), *Costco* is likely to impact patent exhaustion doctrine if the Supreme Court grants review.

Costco may provide some opportunity for the Supreme Court to further elaborate exhaustion doctrine as espoused in *Quanta*. Indeed, one district court, relying on *Quanta*, has applied a rule of international exhaustion, finding that authorized foreign sales exhausted the U.S. patent rights. See *LG Electronics, Inc. v. Hitachi, Ltd.*, 655 F. Supp. 2d 1036 (N. D. CA 2009).

4. Inequitable Conduct

Many believe the “plague” of inequitable conduct has returned. The earlier versions of the patent reform bill in Congress contained provisions for changing inequitable conduct, but those have been removed from the currently pending bills in both the House and Senate.

In 2009, the Federal Circuit was quite active in shaping the contours of the doctrine. Indeed, Judge Linn believes that inequitable conduct is broken and the court acting en banc needs to revisit the doctrine, as explained below.

Exergen Corp. v. Wal-Mart Stores, Inc., 575 F.3d 1312 (Fed. Cir. 2009).

For example, the court clarified in *Exergen*, and possibly heightened, the pleading standard for inequitable conduct, confirming that, as an allegation of fraud, it must be plead with particularity. The court reasoned that, to satisfy the pleading requirements, there must be an explicit rather than implied expression of the circumstances constituting fraud. “Particularity” means the pleading must be in detail, necessarily including the “who, what, when, where, and how” of the material misrepresentation or omission committed before the PTO. Although knowledge and intent may be asserted generally, the pleading must be sufficient enough that the court may reasonably infer that the patentee acted with the requisite state of mind. This requisite state of mind is (1) knowledge of the withheld material information or of the falsity of the material misrepresentation, and (2) specific intent to deceive the PTO.

The court affirmed the district court’s decision not to refuse to allow the accused infringer SAAT to amend the pleadings. The allegations were not specific enough. SAAT failed to name the specific individual who deliberately withheld or misrepresented information to the PTO; the allegation only named “Exergen, its agents and/or attorneys.” The “who” factor is missing. SAAT also failed to identify which claims, and which limitations in those claims, the withheld references are relevant to, and where in those references the material information could be found. SAAT also failed to identify the particular claim limitations that are supposedly absent from the information of record. Rather, SAAT only stated that the references were “material” and “not cumulative to the information already of record.” The facts that SAAT alleged do not allow a reasonable inference that Exergen acted with the requisite state of mind. That is, SAAT

could not show that Exergen had both (1) knowledge of the withheld material information or of the falsity of the material misrepresentation, and (2) specific intent to deceive the PTO.

Moreover, even though Exergen owned the '808 patent, it cannot be said that just because Exergen knew the reference existed, it automatically knew of any specific material information within that reference. Exergen must have known about the allegedly material information. As to alleged false statements made to the PTO, SAAT did not allege sufficient facts to infer that the attorney who made the false statement knew of the contradictory statement on Exergen's website. The mere existence of material information does not create the duty to inquire. Rather, the attorney must have been presented with sufficient information to suggest the existence of specific information, the materiality of which could be determined through reasonable inquiry.

Larson Manufacturing Co. of South Dakota, Inc. v. Aluminart Products Ltd., 559 F.3d 1317 (Fed. Cir. 2009).

In *Larson*, the accused infringer alleged inequitable conduct on the basis of three pieces of prior art that were not submitted to the PTO and for two office actions from an examiner in a related application. The court concluded that the prior art references were cumulative and thus not material, but remanded to the district court to consider the applicant's intent in light of the material office actions. The panel provided guidance to the district court regarding the intent element, noting that:

materiality does not presume intent, and nondisclosure, by itself, cannot satisfy the deceptive intent element. Rather, the alleged infringer must prove by clear and convincing evidence a specific intent to deceive the PTO. (Citations omitted.)

Judge Linn concurred, as the majority decision is consistent with the Court's precedent, but concurred to suggest that the Federal Circuit has departed from Supreme Court precedent and should reconsider the standard for intent *en banc*. Judge Linn explained:

But in seeming contradiction with *Kingsdown*, a standard even lower than "gross negligence" has propagated through our case law. This standard permits an inference of deceptive intent when "(1) highly material information is withheld; (2) 'the applicant knew of the information [and] . . . knew or should have known of the materiality of the information; and (3) the applicant has not provided a credible explanation for the withholding.'"

Judge Linn faulted this standard for three reasons. First, the initial factor conflates materiality with intent. Second, the “should have known” component of the test is a negligence, which was seemingly rejected in *Kingsdown*. Third, the first two components are insufficient to create a threshold demonstration of intent that would need to be negated by the final prong of the analysis. Judge Linn concluded by expressly suggesting that *en banc* review of the intent standard is appropriate.

Therasense, Inc. v. Becton, Dickinson, and Co., 593 F.3d 1289 (Fed. Cir. 2010).

Further demonstrating Judge Linn’s concerns that inequitable conduct doctrine needs to be revisited is the *Therasense* decision, and particularly Judge Linn’s dissent. The majority affirmed a judgment of inequitable conduct by the district court based on the patentee’s representations to the European Patent Office which were withheld from the PTO.

As to materiality, the majority agreed with the district court that the failure to disclose the representations made at the EPO were material. The relevant statute is 37 C.F.R. § 1.56(a)-(b), which states that information is material both when information is not cumulative to the information already disclosed and when information is inconsistent with a position the applicant took in opposing an argument or patentability or asserting an argument of patentability. In Abbott’s patent, there is language that a protective membrane can be placed over the strips “optionally, but preferably.” In 1994, Abbott represented to the EPO that that language is “unequivocally clear” and was not directed to permeability. It discussed the safety aspect of the membrane and preference of using it with live blood, compared to it being used optionally with whole blood. In both cases, however, it was “unequivocally clear” that the membrane was not required.

In 1997, Abbott represented to the PTO that that language is mere “patent phraseology,” that the phrase would not have a clear meaning to a PHOSITA at the time of the invention. Also, Abbott noted reasons to the EPO as to why a membrane was optional, or even necessary, supporting the position that these problems did not exist for *in vitro* testing of whole blood and that a membrane was not necessary for testing whole blood *in vitro*. Abbott was distinguishing its membrane from a membrane found in the prior art. Abbott had represented to the PTO that a

membrane was not necessary. For the PTO, the necessity of this membrane was the deciding factor of overcoming obviousness.

Abbott's attorney (Pope) agreed that the plain English reading of what Abbott told the EPO was contrary to what it told the PTO. However, Abbott argued that this inconsistency was not material to patentability since the two representations to the EPO and PTO were merely arguments. The Federal Circuit rejected this argument and stated that arguments to patentability are material when an applicant's earlier statements about prior art contradict what the applicant argues in the PTO.

As to intent, the Federal Circuit affirmed five district court findings: "(1) that the statements made to the PTO concerning the prior art '382 patent were absolutely critical in overcoming the examiner's earlier rejections of the claims of the '551 patent; (2) that the EPO statements would have been very important to an examiner because they contradicted the representations made to the PTO; (3) that Pope and Dr. Sanghera [Abbott's Director of R&D] both knew of the EPO statements and consciously withheld them from the PTO; (4) that neither Pope nor Dr. Sanghera provided a credible explanation for failing to submit the EPO documents to the PTO; and (5) that Pope's and Dr. Sanghera's explanations for withholding the EPO documents were so incredible that they suggested intent to deceive."

Abbott also argued that Dr. Sanghera should not be responsible because he provided the EPO documents to Pope, and therefore relieved himself of the duty to disclose to the PTO. The Federal Circuit rejected this argument and stated that Dr. Sanghera had a duty to avoid intentional deception in his declaration before the PTO, and merely disclosing the EPO documents to Pope did not obviate that duty.

Judge Linn's dissent makes the problems in inequitable conduct law far more salient than the majority. In Judge Linn's view, the question is whether anything in Abbott's EPO submissions refutes or is inconsistent with its PTO submissions. Even though the information withheld from the PTO may have been material, the patentee provided good faith explanations as to why they subjectively believed the information would not have been material for the PTO.

Judge Linn suggested the appropriate standard is whether this good faith explanation is "plausible" for the individuals to subjectively believe that the reference was immaterial, not

whether it was plausible for the information itself to be immaterial. Thus, the finding of inequitable conduct was error in this case.

According to Judge Linn, the majority erred by an inappropriate inference in this case. Under the circuit's law, the court cannot adopt an unfavorable inference over an equally reasonable favorable inference. Given that there are several reasonable inferences that can be made from Abbott's submissions to the EPO, and depending on which inference is adopted, the information may or may not be material. Here, the majority focused on one inference only and concluded that it was material.

Judge Linn felt that inferring intent here, where there are plausible explanations for the failure to disclose, was inappropriate. One legitimate reason for a plausible decision to withhold information is if the applicant did not know of the information's materiality. The court must determine whether the lack of knowledge or belief of immateriality was plausible. Here, it was entirely plausible that the patentee did not know about the Suzuki patent, which disclosed a membraneless sensor used on whole blood. The prior art they knew about were only those sensors that employed a membrane when used on whole blood.

Also, it was plausible that Pope and Dr. Sanghera did not know that one of the inventors held a different interpretation of what the "optionally, but preferably" language meant. With Pope, there was "no duty to inquire unless counsel is on notice of the likelihood that specific, relevant, material information exists and should be disclosed." Also, Pope believed the EPO submissions were not material because they were cumulative and not inconsistent with the PTO submissions. With Dr. Sanghera, there was uncertainty as to whether he could even be considered a PHOSITA, with skill enough to submit an expert declaration as to the meaning of "optionally, but preferably."

The issue of how to perform the balancing between materiality and inferring deceptive intent will likely garner additional attention in 2010, if not *en banc* review.

5. ***Ariad Pharmaceuticals, Inc. v. Eli Lilly & Co.*, 332 Fed. Appx. 636 (Fed. Cir. 2009), rehearing en banc (Dec. 7, 2009)**

In *Ariad Pharmaceuticals v. Lilly*, the Federal Circuit reversed a jury finding that two of Lilly's marketed drugs infringed a valid Ariad patent. The patent claimed methods of gene regulation by reducing the transcription factor NF-kB. On appeal, Lilly argued that the patent was invalid because it did not meet the written description requirement. Agreeing with Lilly, Judge Moore explained that "to satisfy the written description requirement, the specification must demonstrate that Ariad possessed the claimed methods by sufficiently disclosing molecules capable of reducing NF-kB activity so as to satisfy the inventor's obligation to disclose the technologic knowledge upon which the patent is based, and to demonstrate that the patentee was in possession of the invention that is claimed." The court then noted that the analysis of written description is based on the filing date of the application. Judge Moore explained that as of the filing date "the patent disclosed no working or even prophetic examples of methods that reduced NF-kB activity, and no completed synthesis of any molecules prophesized to be capable of reducing that activity." Further, because the state of the art was primitive, the prior art did not "fill in gaps in the written description."

Judge Linn concurred in the result but wrote separately to emphasize his belief that that the court improperly engrafted a separate written description requirement into Section 112 of the Patent Act. Judge Linn argued that the written description called for in Section 112 only relates to describing the invention to meet the enablement requirement. Judge Linn and Judge Rader had previously expressed the view that there is no separate written description requirement in Section 112 in dissenting opinions in other cases.

Four months after the panel's *Ariad* decision, the Federal Circuit vacated Judge Moore's decision and ordered rehearing *en banc*. The court asked for briefing on whether Section 112 contains a separate written description requirement, and if so, what is the scope and purpose of the requirement. Oral arguments were held on December 7, 2009. Twenty-four *amici* filed briefs. Eighteen *amici* supported Lilly's position that there is a separate written description requirement in Section 112. Six *amici* filed without supporting either party. No *amici* supported Ariad. However, several law professors and universities argued that there should not be a separate written description requirement. Conversely, many research based companies argued

for the separate possession based description requirement. The U.S. government also filed an *amicus* brief and argued that the law and courts have long recognized a separate written description requirement. A decision is expected from the *en banc* court soon.

6. *Wyeth v. Kappos*, 591 F.3d 1364 (Fed. Cir. 2010)

The *Wyeth* case concerned the interplay between Section 154(b)(1)(A), which provides a one-day extension of patent term for every day that issuance of a patent is delayed by failure of the PTO to comply with various enumerated statutory deadlines, and Section 154(b)(1)(B), which provides a one-day extension of patent term for every day greater than three years after the filing date that it takes a patent to issue. These provisions (respectively referred to as A or B delays or guarantees) are subject to the limitations of Section 154(b)(2)(A), which states “[t]o the extent that periods of delay attributable to grounds specified in paragraph (1) overlap, the period of any adjustment granted under this subsection shall not exceed the actual number of days the issuance of the patent was delayed.”

In 2000, the PTO promulgated 37 C.F.R. § 1.703(f), which stated “[t]o the extent that periods of adjustment attributable to the [guarantees] overlap, the period of adjustment granted under this section shall not exceed the actual number of days the issuance of the patent was delayed.” The Office amended Section 1.703(f) in 2004 to replace “period of adjustment” with “period of delay” explaining that the language of former Section 1.703(f) “misled applicants into believing that [periods of A-delay] and [periods of B-delay] were overlapping only if the [period of A-delay] occurred more than three years after the actual filing date of the application. If an application is entitled to a [B-]adjustment . . . the entire period during which the application was pending before the [PTO] . . . , and not just the period beginning three years after the actual filing date of the application; is the period of delay under 35 U.S.C. § 154(b)(1)(B) in determining whether periods of delay overlap under 35 U.S.C. § 154(b)(2)(A).”

Thus the period of delay, according to the PTO’s new definition, caused the B guarantee to start with the filing of the application, not three years later, and therefore, the PTO used the greater of the A delay or B delay to determine the appropriate adjustment but never combined the two.

The Federal Circuit found that the period of delay for purposes of the A clause runs from the date the PTO misses the specified deadline to the date of response and the period of delay under the express language of the B clause runs from the three-year mark after filing until the application issues.

As for the overlap, the panel stated that it was clear no overlap happens unless the violations occur at the same time. That before the three-year mark, no overlap can transpire between the A delay and the B delay because the B delay had yet to begin or take any effect.

According to the panel opinion, the legislative history evinced a Congressional intent to restore to patent holders term lost as a result of the change in U.S. law implementing the provisions of the GATT treaty. The legislation implementing the patent provisions of the GATT treaty changed the term of a U.S. patent from 17 years from grant to 20 years from its earliest priority date: “[t]hus, no patent applicant diligently seeking to obtain a patent will receive a term of less than the 17 years as provided under the pre-GATT standard; in fact, most will receive considerably more.” H.R. Rep. No. 106-464, at 125 (1994). Despite clear evidence that the purpose of the statute requires an expansive reading, the Office chose (four years after the fact) to implement the rules so that patentees would not receive the benefit of “considerably more” patent term adjustment, by deciding to choose between the greater of the length of “A” delay and “B” delay, rather than adding both types of delay together and subtracting any “A” delay periods that occurred more than three years after the patent filing date (*i.e.*, during the “B” delay period).

Finally, in response to the Office’s assertion that it was entitled to deference under either *Chevron U.S.A., Inc. v. Natural Resources Defense Council, Inc.*, 467 U.S. 837 (1984), or *Skidmore v. Swift & Co.*, 323 U.S. 134 (1944), the Court stated that “[b]ecause the language of the statute itself controls this case and sets an unambiguous rule for overlapping extensions, this court detects no reason to afford special deference to the PTO’s interpretation.” As a result, the Federal Circuit concluded that: “Section 154(b)’s language is clear, unambiguous, and intolerant of the PTO’s suggested interpretation.”

7. Damages (*Lucent Technologies, Inc. v. Gateway, Inc.*, 580 F.3d 1301 (Fed. Cir. 2009))

I. SUMMARY OF FACTS

- A. Lucent trying to get money from Microsoft
- B. Day patent covers “predefined tool” from predefined group of tools adapted to supply an individual entry to be inserted into a field on a display
- C. Purported to read on date picker feature in Microsoft Outlook

II. INVALIDITY (Very fact specific about a Datamation article)

- A. Clearly called out a tool and clearly put the result somewhere
- B. Article describes a system capable of putting data into a field but does not appear to teach the step
- C. Microsoft’s expert said Datamation was not graphical
- D. Conflicting experts and “entirely reasonable for the jury”

III. ACTUAL INFRINGING USE

- A. Very fact specific about a Datamation article
- B. Jury demands 8% v. \$6.5M
- C. Microsoft needs to tie damages to actual use
- D. Argument rejected

IV. ROYALTY DAMAGES

- A. Two Methods
 - 1. Analytical
 - 2. Reasonable Royalty
- B. Analytical uses projected profits

C. Other is GP Factors

1. Most focus on second factor 2: Comparable licenses
Court rejected broad portfolio licenses
2. Factor 10: Benefits of use of invention - Feature is a tiny part
3. Factor 13: Profits attributable to use - Little evidence but again tiny feature
4. Factor 11: How much use of feature - Lots of discussion on how to prove but record is devoid of evidence

8. **Damages (*i4i Limited Partnership v. Microsoft Corp.*, 589 F.3d 1246 (Fed. Cir. 2009))**

I. SUMMARY OF FACTS

- A. i4i developed custom software for processing and storing information about the structure of electronic documents containing markup languages, e.g., XML
- B. i4i obtained patent on improved method for editing documents containing markup languages like XML (U.S. Patent No. 5,787,449)
- C. Microsoft sells Word, some versions have XML editing capabilities which incorporate the patented feature
- D. i4i sues Microsoft on '449 patent

II. PROCEDURAL POSTURE

A. District Court

- 1. Microsoft argues invalidity
- 2. Jury rejects invalidity argument, finds willful infringement, awards \$200M in damages
- 3. Court awards \$40M in enhanced damages, and grants permanent injunction

B. Microsoft appeals on jury's validity and infringement findings, jury's damages award, enhanced damages, and permanent injunction

C. Federal Circuit affirms district court

III. ISSUES (Damages Only)

- A. Were expert testimony and survey properly admitted? YES
- B. Was there sufficient evidence to support the jury award? YES
- C. Did district court abuse discretion in awarding enhanced damages? NO

IV. ANALYSIS

A. Admission of expert testimony and survey relied on by expert

1. Standard of review = abuse of discretion
2. HOLDING: District court did not abuse discretion in admitting expert testimony because evidence was both relevant and reliable
3. HOLDING: District court did not abuse discretion in admitting survey because its probative value outweighed any unfair prejudice

B. Sufficiency of evidence supporting the award

1. Standard of review = highly deferential “clear showing of excessiveness”
2. HOLDING: No clear showing of excessiveness because Microsoft did not show there was no evidence to support the jury’s damages verdict

C. Enhanced Damages

1. Standard of review = abuse of discretion
2. HOLDING: no abuse of discretion in awarding \$40M because district court used proper factors in deciding whether to enhance damages

V. ADMISSION OF EXPERT TESTIMONY

A. Damages Calculation: $\$98$ (royalty rate) x 2.1M (# of Word products actually used in infringing manner) = $\$200M$

B. Royalty rate (based on “hypothetical negotiation between i4i and Microsoft at time infringement began”) = baseline rate adjusted by Georgia-Pacific factors

1. Baseline rate: a benchmark product XMetaL with a retail price of $\$500$ x Microsoft profit margin = 76.6% x inventor profits = 25%

C. Microsoft - royalty rate unreasonable because:

1. Price of benchmark product exorbitantly high: some Word products only cost $\$97$

2. The royalty rate results in total damages >>>> \$1M to \$5M
Microsoft paid to license other patents

D. Federal Circuit: “Microsoft’s quarrel with the facts [the expert] used go to the weight, not admissibility, of his opinion.”

1. Expert’s testimony was (a) relevant because expert testified that the hypothetical negotiation model was accepted by damage experts/economists; and it was (b) reliable because expert testified about his credentials. Therefore, expert testimony was properly admitted.

VI. SUFFICIENCY OF EVIDENCE SUPPORTING THE AWARD

A. If pre-verdict JMOL filed, broad review allowed

1. “Given the opportunity to review the sufficiency of the evidence, we could have considered whether the \$200 million damages award was ‘grossly excessive or monstrous’ in light of Word’s retail price and the licensing fees Microsoft paid for other patents.”
2. Pretty good chances of winning on this point: “Had Microsoft filed a pre-verdict JMOL, it is true that the outcome might have been different.”

B. During argument, the benchmark used by the expert and 25% rule both scrutinized for reliability, but court offered glimpses of sufficiency

1. Issue 1: Federal Circuit: why use XMetaL (\$500 for the add-on feature), why not use cost of Word (\$90-\$300) as starting point?
2. Issue 2: Federal Circuit: the patented feature in Word is only a “tiny portion of the huge functionality offered by Microsoft Word.” Seems unreasonable that one who was looking for that feature in Word would buy a \$500 product if Word didn’t offer the feature.
3. Issue 3: Where’s the evidence that shows people would be willing to pay \$500 for a single feature that is missing from Word? Why wasn’t this asked in the survey?

4. Issue 4: Assuming some people are willing to pay \$500 for the product, i4i's expert assumed that everyone who bought Word was willing to buy the \$500 product.

5. Issue 5: Is the 25% rule "pulled out of the air"?

VII. TAKEAWAYS

A. Damages calculation: although the court did not rule on the sufficiency of the evidence, court placed a lot of emphasis on the value of the patented technology relative to the product

B. Documents can and will be used against you:

1. "As explained in our discussion of contributory infringement, Microsoft's internal emails are substantial evidence of Microsoft's knowledge, both of the '449 patent and the infringing nature of Word's custom XML editor."

2. In reviewing Georgia Pacific factors to adjust royalty rate:

a. Expert opined that Microsoft had no commercially acceptable, non-infringing alternatives to using i4i's patent. "This opinion was based on internal Microsoft documents describing Microsoft's interest in creating such a custom XML editor, and prolonged inability to do so."

b. Expert concluded that the custom XML editor was a critical addition to Word. "In support of this view, i4i presented statements by Microsoft employees that custom XML was not a 'slight addition [but i]t's more like 90 percent of the value,' and was 'where the future is, seriously.'"