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## Federal Circuit Clarifies Claim Construction Rules

In *Phillips v. AWH Corp.*, 415 F.3d 1303, 75 USPQ2d 1321 (Fed. Cir. 2005) (*en banc*), the Federal Circuit conducted a rehearing *en banc* in order to review a panel decision in which appellate panel construed term "baffle," in claims directed to impact-resistant building modules, as limited to modules providing impact or projectile resistance oriented at angles other than 90 degrees based upon the intrinsic record and without using the broader ordinary meaning of the term. The main question to be answered was whether "the public notice function of patent claims [is] better served by referencing primarily to technical and general purpose dictionaries and similar sources to interpret a claim term or by looking primarily to the patentee's use of the term in the specification?" In its decision, the Federal Circuit held, *en banc*, that the intrinsic record of the specification and prosecution history should be used to define the claim scope, with the use of dictionaries being reserved to clarify meanings not made clear in the intrinsic record in the same way as extrinsic evidence such as expert testimony.

Specifically, the Federal Circuit affirmed that the claims are interpreted in accordance with *Vitronics Corp. v. Conceptronic, Inc.*, 90 F.3d 1576, 39 USPQ2d 1573 (Fed. Cir. 1996), which emphasizes the importance of intrinsic evidence (i.e., specification and prosecution history) as the primary or initial claim construction tool. The Federal Circuit rejected the use of dictionaries and treatises as a primary method of construing claim features as held in *Tex. Digital Sys. v. Telegenix, Inc.*, 308 F.3d 1193, 64 USPQ2d 1812 (Fed. Cir. 2002). In making this decision, the Federal Circuit clarified that the "ordinary meaning" of a claim term is the meaning to a person skilled in the art at the time of the invention (i.e., as of the effective filing date of the patent application) after reading the claim term not only in the context of the particular claim in which the disputed term appears, but also in the context of the entire patent, including the specification and prosecution history. While extrinsic evidence, which "consists of all evidence external to the patent and prosecution history, including expert and inventor testimony, dictionaries, treaties and technical references" is "less significant than the intrinsic record," this extrinsic evidence can still be useful to help educate the district court regarding the field of invention and how a person skilled in the art would understand the "ordinary meaning" of a claim term when read in the context of the specification and prosecution history.

In discounting the use of extrinsic evidence as a primary tool for claim construction, the Federal Circuit held that "extrinsic evidence in general as less reliable than the patent and its prosecution history" for several reasons:

- extrinsic evidence by definition is not part of the patent and does not have the specification's virtue of being created at the time of patent prosecution for the purpose of explaining the patent's scope and meaning
- extrinsic publication may not be written by or for skilled artisans and therefore may not reflect the understanding of a skilled artisan in the art.
- extrinsic evidence such as expert reports and testimony is generated at the time of and for the purposes of litigation and thus can suffer from

bias that is not present in intrinsic evidence.

- there is a virtually unbounded universe of potential extrinsic evidence (e.g., different dictionaries may contain different sets of definitions for the same words) such that each party will naturally choose the pieces of extrinsic evidence most favorable to its cause, leaving the court with the considerable task of filtering the useful extrinsic evidence from the fluff; and
- undue reliance on extrinsic evidence can undermine the public notice function of patents.

With this claim construction methodology, the Federal Circuit interpreted the claims de novo. Claim 1, which recites "further means disposed inside the shell for increasing its load bearing capacity comprising internal steel baffles extending inwardly from the steel shell walls", there are three clear requirements with respect to the "baffles": 1) the baffles must be made of steel; 2) the baffles must be part of the load-bearing means for the wall section; and 3) the baffles must be pointed inward from the walls. From the intrinsic evidence, the Federal Circuit held that the District Court's interpretation of the term "baffles" was improper.

Specifically, the Federal Circuit looked to dependent claims 2 and 17, which further define that the "baffles" are disposed at "angles for deflecting projectiles such as bullets" that penetrate the outer shell, and dependent claim 6, which further provides an additional requirement for the baffles as being interlocked "to form an intermediate barrier". Thus, under the doctrine of claim differentiation, claim 1 would have a scope of at least commensurate with these depending claims such that the term "baffles" in claim 1 is not limited to elements which deflect bullets.

The Federal Circuit also noted that the specification further discusses several other purposes served by the baffles beyond deflection of bullets. For example, the baffles are described as providing structural support for one of the wall, as shown in FIG. 4 and FIG. 6. In addition, the baffles are also described as providing "for overlapping and interlocking … to produce substantially an intermediate barrier wall between the opposite [wall] faces, and thus, creating small compartments that can be filled with either sound and thermal insulation or rock and gravel to stop projectile, as shown in FIG. 7. Thus, there was no statement in the specification limiting the term "baffles" to elements which deflect bullets alone.

In view of the multiple objectives to be served by the "baffles" as described in the specification and in view of the doctrine of claim differentiation, the term "baffles" need **not** be read restrictively to require that "baffles" must be used to deflect bullets and, thus, must have angles at other than 90 degrees angle.

As a result, the Federal Circuit rejected the accused infringer's arguments (AWH) in favor of a restrictive definition of the term "baffles", reversed the summary judgment of non-infringement, and remanded the infringement claims back to the district court for further proceedings.

## FAILURE TO DESCRIBE MECHANISM PERFORMING FUNCTION INVALIDATES MEANS PLUS FUNCTION CLAIM

In *Default Proof Credit Card Sys. v. Home Depot, U.S.A., Inc.*, 412 F.3d 1291, 75 USPQ2d 1116 (Fed. Cir. 2005), Default Proof owns U.S. Patent No. 6,405,182, which directed to a Point of Sale (POS) terminal that allow individuals to obtain prepaid debit cards. Claim 1 of U.S. Patent No. 6,405,182 recites a "means for dispensing at least one debit card for each transaction." Default Proof sued Home Depot and other stores for infringement of claim 1. As a defense to infringement, Home Depot asserted that this feature of claim 1 was written in means plus function language, and thus invokes 35 U.S.C. §112, ¶6. However, this feature lacks a description of any structure which provides a function of a "means for dispensing" debit cards as recited in claim 1 and is thus invalid for being indefinite under 35 U.S.C. §112, ¶2. On appeal to the Federal Circuit, the Federal Circuit upheld the finding of invalidity since, although there was a link between the recited function and the POS terminal, there was no disclosure of any structure used by the POS terminal which actually dispensed the debit card. Further, the fact that certain types of POS terminals were known to have such a feature, there was no suggestion in the specification that any of these types of POS terminals could be used and claim 1 recites the means for dispensing as being separate from the POS terminal itself. As stated by the Federal Circuit, "while it is true that the patentee need not disclose details of structures well known in the art, see *S3 Inc. v. nVIDIA Corp.*, 259 F.3d 1364, 1371, 59 USPQ2d 1745, 1749 (Fed. Cir 2001), the specification must nonetheless disclose some structure."

## Federal Circuit finds that inequitable conduct not imputed by mere filing of Terminal Disclaimer

In *Pharmacia Corp. v. Par Pharm.*, 417 F.3d 1369 (Fed Cir. 2005), Defendant filed an Abbreviated New Drug Application (ANDA) in order to sell a generic version of Plaintiff's patented glaucoma medication. Due to the ANDA, Plaintiff filed a patent infringement suit alleging infringement of U.S. Patent No. 5,296,504 (the '504 patent) and U.S. Patent No. 5,422,368 (the '368 patent). At trial, Defendant was able to show that Plaintiff had conducted inequitable conduct in regards to the '368 patent due to inaccuracies in a Declaration used to overcome a rejection during prosecution. The Defendant further asserted that, since a Terminal Disclaimer was filed in the '368 patent in response to an obviousness type double patenting rejection in view of the '504 patent, the two patents were linked such that the inequitable conduct in the '368 patent also exists in the '504 patent. The Federal Circuit held that, while the Declaration did support a finding of inequitable conduct for the '368 patent, the mere filing of a Terminal Disclaimer did not impute the inequitable conduct to the '504 patent. Specifically, the Federal Circuit noted that the Terminal Disclaimer merely reflects a judicial policy to limit the term of related patents, but that "[b]eyond their shared expiration date, …two disclaimed patents maintain significant attributes of individuality." As such, without more, the filing of a Terminal Disclaimer will not impute inequitable conduct between disclaimer patents and allows the patents to be separately enforceable.

## Federal Circuit finds patent invalid for being on sale

In *Electromotive Div. of GMC v. Transp. Sys. Div. of GE*, 417 F.3d 1203, 75 USPQ2d 1650 (Fed Cir. 2005), the Federal Circuit affirmed that a patent directed to a planetary bearing and compressor were invalid under 35 U.S.C. §102(b) based upon a pre-critical date commercial sale. Plaintiff produces locomotives which incorporate the planetary bearing and compressor within a planetary drive train. When the planetary bearing and compressor were first developed, Plaintiff initiated a two phase testing program. In the first phase, the planetary bearing and compressor were tested in house. When the first phase was completed on July 17, 1989, a second phase of testing was begun in August of 1989. In the second phase, the planetary bearing and compressor were field tested by being installed in sold locomotives. Plaintiff did not actively monitor the field tested planetary bearing and compressor after the sale, did not require recipients to sign confidentiality agreements or otherwise restrict access to the planetary bearing and compressor, and instead merely monitored whether repairs occurring in the locomotives were related to the planetary bearing and compressor. The Federal Circuit held that, while the second phase was designated a test phase, the second phase did not qualify as experimental within the meaning of 35 U.S.C. §102(b). Specifically, the Federal Circuit held that whether activity is experimental (as opposed to an on-sale activity) is based upon objective criteria separate from the inventor's subjective intent. The objective criteria are judged based upon thirteen (13) factors:

> (1) the necessity for public testing; (2) the amount of control over the experiment retained by the inventor; (3) the nature of the invention; (4) the length of the test period; (5) whether payment was made; (6) whether there was a secrecy obligation; (7) whether records of the experiment were kept; (8) who conducted the experiment; (9) the degree of commercial exploitation during testing; (10) whether the invention reasonably requires evaluation under actual conditions of use; (11) whether testing was systematically performed; (12) whether the inventor continually monitored the invention during testing; and (13) the nature of the contacts made with potential customers.

Of particular importance in the context of distinguishing commercial on sale activity from experimental activity is both control over the experiment and customer awareness of the experimental nature of the transaction since "[i]f an inventor fails to communicate to a customer that the sale of the invention was made in pursuit of experimentation, then the customer, as well as the general public, can only view the sale as a normal commercial transaction." The Federal Circuit held that the lack of control over the field test combined with the lack of customer awareness of the experimental nature of the transaction meant that an on

sale event occurred in at least August of 1989. Since the Plaintiff did not file a patent application for the planetary bearing and compressor until November of 1990, the patent was invalid due under 35 U.S.C. §102(b) for being on sale more than one year prior to filing the patent application.

## Federal Circuit defines scope of notice to show willful infringement after Knorr-Bremse

In *Imonex Servs. v. W.H. Munzprufer Dietmar Trenner Gmbh*, 408 F.3d 1374, 74 USPQ2d 1936 (Fed. Cir. 2005), *reh'g and reh'g en banc denied*, 2005 U.S. App. LEXIS 15283 (Fed. Cir. June 27, 2005), Imonex alleged that Munzprufer infringed Imonex's U.S. Patent Nos. 4,911,280 and 5,988,349. Imonex patented coin selectors, which differentiate between different size coins. The jury found the patents valid, enforceable and willfully infringed. Willful infringement was based on a showing that the totality of the circumstances evince conduct that constitutes willful infringement using the standard set forth in *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337, 1342, 72 USPQ2d 1560 (Fed. Cir. 2004). Under this standard, actual notice of another's patent rights triggers an affirmative duty of care, whereas constructive notice is not sufficient to trigger an affirmative duty. Imonex demonstrated the patented devices at trade shows to employees of the defendant, widely distributed literature of the patented products indicating the products were patented, and corresponded with the defendant's employees about the use of the patented devices in the defendant's products. These actions gave the defendant actual notice and thus triggered an affirmative duty of care. Thus, the Federal Circuit held that, based on the totality of the circumstances, the jury had ample evidence to find willful infringement.

## Federal Circuit gives narrow meaning to claim term "conventional" to be limited to then-existing technology and to exclude later developed technology

In *PC Connector Solutions LLC v. SmartDisk Corp.*, 406 F.3d 1359; 74 USPQ2d 1698 (Fed. Cir. 2005), PC Connector asserted that SmartDisk infringed patent claim which recite, among other features, "an input/output port normally connectible to a conventional computer input/output port" and "traditionally connectible to a computer by means of an input/output port of the computer and the standard input/output port of the particular separate computer peripheral." In its non-infringement defense, SmartDisk asserted that the recited terms "conventional," "normal," "traditionally," and "standard" limited the scope of the claims to the then-existing technologies since later arising technologies were not conventional, normal, traditional, or standard at the time of filing the application. The Federal Circuit reviewed the specification and determined that the only disclosed embodiment which corresponded to these terms related to a computer input/output port in existence in 1988. While the Federal Circuit declined to limit the literal scope to the disclosed embodiments since the specification did not disclaim other types of ports, the Federal Circuit held that the meaning must be consistent over time. As such, these terms must be limited to the understanding as of the effective filing date of the application. Since the flash memory and smart cards of SmartDisk were not conventional at the time the application was filed, SmartDisk's products were not covered by the literal scope of the claims. As such, an applicant needs to be aware that, when incorporating standards or requirements for "conventional" technology into claims, the claims may not be given a meaning which covers later-developed technology not defined by that standard or not understood to be "conventional."

## Summary of the Invention and Background of the Invention used to Limit Claim Scope

In *Boss Control, Inc. v. Bombardier Inc.*, 410 F.3d 1372, 75 USPQ2d 1038 (Fed Cir. June 8, 2005), Boss Control owns U.S. Patent No. 5,734,206. U.S. Patent No. 5,734,206 is drawn to a power interrupt apparatus that prevents the unauthorized use of an electrically operated device. Boss Control sued Bombardier and others for infringement of claim 7, which includes a feature in which "said controller is operative to interrupt power to the load responsive to said code-providing device being operatively disconnected from said controller." In order to show infringement, Boss Control wanted a broad interpretation of the term "interrupt" to read on any break off of power or cut off power, which Boss Control asserted was the ordinary meaning of this phrase. The District Court held that Boss Control was not entitled to this broader interpretation and instead sided with Bombardier in that a narrower (and non-infringing) interpretation was appropriate in view of the use in the patent specification. On appeal from the judgment of non-infringement, the Federal Circuit held that the term "interrupt" was defined in the specification and is narrower than the broadest possible meaning based upon Summary of the Invention and Background of the Invention sections.

Specifically, the Background of the Invention discussed conventional devices having on/off interrupts, thus indicating that the term "interrupt" was intended to have a narrower meaning that is more than simply a cut off or break off of power. The Federal Circuit relied upon the following passage to support this interpretation:

> In the prior art, means have been provided to prevent unauthorized usage of electrical appliances and similar electrically operated devices, primarily through key operated electro-mechanical circuit interrupt devices. However, such devices conventionally provide for on-off control only, meaning that the device completely interrupts the flow of electrical power to the appliance while in the interrupt or "locked" state, and it connects the appliance to the electrical supply in the operative or "unlocked" state.

Consistent with the Background of the Invention, the Summary of the Invention distinguished the application's invention over conventional interrupts as being more than a simple on/off function. The Federal Circuit relied upon the following passage to support this interpretation:

> In accordance with one aspect of the invention the appliance or device retains a connection to the power supply while in interrupt or "locked" mode; complete power shutoff only occurs when a preset electrical current is exceeded, thus allowing operation of the appliance's auxiliary electrical equipment while the interrupt device is in the interrupt mode.

Since the Detailed Description was also consistent with this description in the Summary of the Invention, the Federal Circuit agreed with the District Court and limited the meaning of broad term "interrupt" to only literally cover more than simple on/off functions.

## Federal Circuit Enforces Rarely Utilized False Marking Statute

Under 35 U.S.C. §292, a competitor can bring an action against a person who falsely marks an item as being covered by one or more claims of a patent. If false marking is found, the person is liable to the competitor in the amount of $500 per offense (i.e., per marked item). In order to enforce this fine, however, the competitor needs to provide, by a preponderance of the evidence, that the person marked the item with "the word "patent" or any word or number importing that the same is patented *for the purpose of deceiving the public*." (italics added). While rarely enforced, in *Clontech Labs., Inc. v. Invitrogen Corp.*, 406 F.3d 1347, 74 USPQ2d 1598 (Fed Cir. 2005), the Federal Circuit had an opportunity to clarify the burdens of proof in showing whether a falsely marked item is in violation of 35 U.S.C. §292. In this case, Invitrogen is an owner of four patents directed to RNase H deficient Reverse Transcriptase ("RT") polypeptides: U.S. Patent No. 5,244,797, U.S. Patent No. 5,405,776, U.S. Patent No. 5,668,005, and U.S. Patent No. 6,063,608. Invitrogen further markets RNase H deficient RTs known as SUPERSCRIPT ("SS") and SUPERSCRIPT II ("SSII"), along with kits and cDNA libraries related to SS and SSII. The SS and

SSII have been marked with all four patents, whereas the kits and cDNA libraries were marked with some of the four patents. A competitor, Clontech, sued Invitrogen on, among other grounds, under 35 U.S.C. §292 for false marking. Clontech argued that the patents did not cover the sold SS, SSII, kits and cDNA libraries as indicated in the markings, and that Invitrogen was sufficiently aware that these were falsely marked so as to constitute a violation of 35 U.S.C. §292 at least in view of a test conducted in at least 2000. The District Court found Invitrogen had falsely marked the sold SS, SSII, kits and cDNA libraries and was thus in violation of 35 U.S.C. §292.

On appeal, the Federal Circuit stated that the purpose of 35 U.S.C. §292 is to provide a mechanism of reliably determining if an article is covered by intellectual property. This purpose is frustrated where unpatented articles are mismarked with an intent to deceive. However, since 35 U.S.C. §292 is not a strict liability statute, there needs to be evidence that the mismarking was made with an intent to deceive as well as evidence that the marks were indeed false as not being covered by the listed patents. The Federal Circuit held that the competitor needed to provide objective evidence that shows, by a preponderance of the evidence, this intent to deceive public. If shown, the accused person can rebut by showing mismarking was not with intent to deceive. From this test, the Federal Circuit held overturned the District Courts judgment of false marking for the SS and SSII since the conflicting evidence as to the meaning of the 2000 test results did not put Invitrogen on "clear" notice of mismarking and since Court did not interpret the recited phrase "substantially no RNase H activity" to show actual mismarking.

However, in regards to the cDNA libraries, the Federal Circuit upheld the District Court's judgment of false marking since there was no disagreement about actual mismarking or that the patent owner was not aware that claims covered the cDNA libraries. The Federal Circuit dismissed Invitrogen's arguments that the public policy of 35 U.S.C. §292 is further even where there is no good faith belief that the patents cover the marked product as being contrary to the explicit purpose of the statute, which requires the patent owner to provide accurate information about the protected nature of the marked product. Since there was no objective evidence of good faith belief in that the marking the libraries was not to deceive public and no evidence that marked patents did not cover cDNA libraries, the Federal Circuit upheld the District Court's judgment for the cDNA libraries as being falsely marked as defined under 35 U.S.C. §292.

## Trademark Case of Note: Frosty Treats v. Sony

***Defendant's Use of Graphics In Video Games Which Are Similar To Plaintiff's Trucks and Graphics Are Insufficient To Show Violation of Lanham Act Without Evidence of Confusion and/or Secondary Meaning***

Frosty Treats sued Sony Computer Entertainment America (SCEA) asserting claims under state and federal law for trademark infringement and dilution, and for unfair competition due to SCEA's depiction of an ice cream truck bearing the phrase "Frosty Treats" and a clown character in one of SCEA's video games. Frosty Treats contends that because an ice cream truck, the phrase "Frosty Treats", and the clown shown in SCEA's video game are similar to its ice cream trucks and Safety Clown, the game creates a likelihood of confusion as to Frosty Treats' sponsorship or affiliation with the video games. In an appeal from the District Court's granting SCEA's motion for summary judgment dismissing Frosty Treats' claims, and the Court of Appeals for the Eighth Circuit affirmed.

On the issue of whether the phrase "Frosty Treats" is a protectable trademark, the Eighth Circuit reviewed the factors of whether a mark is protectable. For a mark to be protectable, the mark must first be categorized as (1) generic, (2) descriptive, (3) suggestive, or (4) arbitrary or fanciful. The Court held that, while "Frosty Treats" as a mark is not generic, the mark is descriptive. Thus, the mark is only protectable to the extent the mark has acquired secondary meaning in the relevant market. Therefore, Frosty Treats needed to show that the mark had acquired a secondary meaning to identify its goods and distinguish them from those of others. According to the evidence of record, the evidence indicated that respondents to a survey conducted recognized the truck with the Frosty Treats phrase simply as a generic ice cream truck, thus failing to establish secondary meaning for the phrase "Frost Treats" on the ice cream. Although direct evidence such as consumer testimony or surveys are probative of secondary meaning, secondary meaning can also be proven by circumstantial evidence. However, the

circumstantial evidence offered by Frosty failed to raise a genuine issue of material fact. Therefore, the Court concluded that the "Frosty Treats" phrase was not protectable under trademark law.

On the issue of whether the Safety Clown graphic is a protectable mark or a non-protectable functional graphic, the District Court held that because the Safety Clown graphic serves a purpose, the graphic is functional and therefore not protectable. The Eighth Circuit disagreed since District Court evaluated the issue using the colloquial meaning of "functional" rather than specialized meaning it has in trademark law. In trademark law, "a product feature is functional, and cannot serve as a trademark, if it is essential to the use or purpose of the article or if it affects the cost or quality of the article." To be functional, the feature must be necessary to afford a competitor the means to compete effectively. There was no evidence that the exclusive use of the Safety Clown graphic would deny Frosty Treats' competitors the ability to compete effectively or place competitors at any non-reputational disadvantage. Therefore, whether the Safety Clown graphic is functional presents a factual issue not appropriate for resolution upon a motion for summary judgment.

However, even assuming that the Safety Clown graphic and the mark "Frosty Treats" are protectable as trademarks, the Eighth Circuit held that there was no likelihood of confusion. Specifically, the Eighth Circuit evaluated whether a likelihood of confusion exists with respect to the trade dress of the trucks and the Safety Clown in light of six criteria: (1) strength of owner's mark; (2) similarity between the owner's mark and the alleged infringer's mark; (3) degree to which the products compete with each other; (4) alleged infringer's intent to pass off its goods as those of the trademark owner; (5) incidents of actual confusion; and (6) type of product, its costs and conditions of purchase. For the first factor, the Eighth Circuit held that the Safety Clown mark and trade dress of Frosty Treats' truck are weak marks since the use of a clown on an ice cream trucks is hardly novel and Frosty Treats' vans resemble a generic ice cream truck and therefore lack distinctiveness within the marketplace. For the second factor, the Eighth Circuit held that the Safety Clown mark and trade dress of Frosty Treats vans are visually distinct from depictions in video games and no reasonable juror could find them similar. In regards to the third and fourth factors, the Eighth Circuit held that SCEA's products do not compete with Frosty Treats and no evidence was shown that SCEA intends to pass off Frosty Treat's mark as its own. For the fifth factor, Frosty Treats failed to provide any proof of actual confusion by a non-interested party, with the only evidence of actual confusion being the testimony of an interested person. Lastly, in deciding the sixth factor, the Eighth Circuit held that the sixth factor is more important in confusion-of-source cases where degree of care that a purchaser exercises in purchasing a product can eliminate confusion that might otherwise exist. In this case, Frosty Treats' action is based on confusion of sponsorship, and thus the customers' degree of care is of diminished importance. Accordingly, Frosty failed to present sufficient evidence to create a triable issue as to the likelihood of confusion between the trade dress of Frosty Treats' trucks or its Safety Clown.

Lastly, the Eighth Circuit held that Frosty Treats does not have actionable claims for trademark dilution under federal and Missouri law. Specifically, Frosty Treats failed to show that the marks and trade dress at issue are famous as required by 15 U.S.C. §1125(c). In addition, the Eighth Circuit held that Frosty Treats failed to show "likelihood of injury to business reputation or of dilution of the distinctive quality of mark....shall be ground for injunctive relief," since the marks and trade dress at issue are so dissimilar that it would be erroneous to hold that there was a likelihood of dilution. *Frosty Treats, Inc. v. Sony Computer Entm't Am., Inc.*, 2005 U.S. App. LEXIS 15127, 75 USPQ2d 1570 (8th Cir. July 25, 2005).

## Supreme Court Sets Standard For Inducement for Copyright Infringement

In *MGM Studios Inc. v. Grokster, Ltd.*, 125 S. Ct. 2764, 162 L. Ed. 2d 781, 75 USPQ2d 1001 (U.S. 2005), the Supreme Court found defendant Grokster for inducement to infringe copyrights without regard to whether Grokster's technology allows for substantial non-infringing uses. Grokster distributes free software that allows computer users to share electronic files through peer-to-peer networks. Unlike Napster, where one server has references items available, Grokster uses no central servers. While the resulting peer to peer networks can be used to share any type of digital file, there was evidence that Grokster's software was mostly used to share copyrighted music and video files. Additionally, there was evidence that Grokster marketed itself as not reachable by copyright as was Napster. Metro-Goldwyn-Mayer Studios Inc. (MGM) and other studios own infringed copies found on the peer-to-peer network created by Grokster's software. MGM sued Grokster alleging that Grokster knowingly and intentionally

distributed their software to enable users to infringe copyrighted works in violation of the Copyright Act.

The Supreme Court held that Grokster was liable for inducing infringement through the distribution of its software. In finding infringement, the Supreme Court held that

> One who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement, going beyond mere distribution with knowledge of third-party action, is liable for the resulting acts of infringement by third parties using the device, regardless of the devices lawful uses.

While acknowledging that the standard for contributory infringement is set forth in *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417 , 104 S Ct. 774, 78 L. Ed. 2d 574, 220 USPQ 665 (U.S. 1984), *reh'g denied*, 224 USPQ 736 (U.S. March 19, 1984), the Supreme Court that the exception applies only to extent do not market software can be used for infringement. In essence, where active inducement is found such as where a device is marketed as useful for infringement, there is no fair use defense for the resulting infringement and no defense for distribution of the device based upon substantial non-infringing uses.

From this holding, the Supreme Court held that inducement to infringe copyright can be found, but only in limited circumstances where the following elements are shown:

1. Infringed copyright;
2. Must be distributing a device allowing infringement; and
3. Distribution must be with the object of promoting the device in the context of infringing copyrights by clear expression or affirmative steps.

# Board of Patent Appeals and Interferences Cases of Note

### *BPAI outlines requirements for prima facie rejection of claims under 35 U.S.C. §112, first paragraph, for a genus where specification describes at least one species of the genus*

In an appeal from a final rejection, the Board of Patent Appeals and Interferences reversed rejections based on both the written description and enablement requirements of 35 U.S.C. § 112, first paragraph, and entered a new ground of rejection under 35 U.S.C. § 112, second paragraph for one of the claims. The Board found that the claims were directed to a naturally occurring amino acid (or polynucleotide) sequence at least 95% identical to the disclosed amino acid (or polynucleotide) sequence and met the written description requirement. The Examiner has rejected claims for failing to comply with the written description requirement, asserting that the specification provides only a single representative species – the polynucleotide of SEQ ID NO: 2, and fails to disclose any structure-function relationship in this species. The Examiner also rejected the claims for failing to comply with the enablement requirement, asserting that because the specification does not teach the specific amino acids and structural motifs in the proteins encoded by the claimed polynucleotides that are essential for protein activity (specifically, malate dehydrogenase activity), the amount of experimentation required to make the claimed polynucleotides was undue. In response, the Appellants contended that because the claims at issue recite polynucleotides having a naturally occurring polynucleotide sequence, or that encode a polypeptide having a naturally occurring amino acid sequence, "through the process of natural selection, nature will have determined the appropriate amino acid sequences."

On appeal, the Board sided with the Appellants on whether the claims were supported by the specification for the purposes of 35 U.S.C. §112, first paragraph. Specifically, on the issue of written description, the Board noted that "[t]he written description requirement . . . does not require a description of the complete structure of every species with a chemical genus." While the Examiner asserted that the disclosure of the single disclosed species does not disclose the structure sufficient to support a genus, the Board found there was insufficient evidence to maintain a rejection under 35 U.S.C. §112, first paragraph, for lack of written description since "the examiner has not adequately explained and/or provided evidence to support that assertion."

Similarly, with regard to the enablement rejection, the Board disagreed with the Examiner's assertion that in order to satisfy this requirement, the specification must provide guidance regarding the specific amino acid residues that are tolerant to change without affecting malate dehydrogenase activity. Instead, the Board deemed persuasive the Appellants' argument that because the claims were limited to naturally occurring sequences, nature will have determined the amino acid residues that are tolerant to change (i.e., naturally occurring variants

will presumably retain malate dehydrogenase activity). In particular, in reversing the Examiner's enablement rejection, the Board determined that the Examiner had not provided sufficient evidence that a naturally occurring polypeptide that is at least 95% identical to the amino acid sequence of SEQ ID NO: 1 or a polypeptide encoded by a naturally occurring polynucleotide sequence that is at least 95% identical to the polynucleotide sequence of SEQ ID NO: 2 would not retain malate dehydrogenase activity. As such, for the purposes of satisfying 35 U.S.C. §112, the disclosure of a natural sequence in and of itself is generally sufficient for disclosing a variance for that sequence, and the Examiner is required to provide evidence that such disclosure is insufficient in order to maintain a prima facie case of failure to comply with 35 U.S.C. §112, first paragraph. *Ex parte Bandman*, Appeal No. 2004-2319 (BPAI January 6, 2005) (non-precedential).

### BPAI interprets closed transition phrase for method claims

In a case involving processes for preparing an organic electroluminescent element, the patent examiner issued a rejection for indefiniteness under 35 USC 112, second paragraph. The examiner indicated that the claimed language of "consisting essentially of" is accepted as "excluding any further steps which materially affect the process." The examiner further stated that since dependent claims 43, 44, 55 and 56 require the further step of forming a sealing membrane which would affect the claimed process, therefore, these claims contradict "two mutually exclusive limitations." On appeal at the Board of Patent Appeals and Interferences (BPAI), the Board reversed the examiner. In a non-precedential opinion, the Board held that the phrase "consisting essentially of" does not "limit the claim to only those steps recited in the claim," Ex parte Hoffman, 12 USPQ2d 1061, 1063 (BPAI 1989), as would a phrase such as "consisting solely of." In fact, according to the Board, the phrase, "consisting essentially of" does not necessarily limit the claims so as to exclude other things when the specification clearly indicates that other constituents may be present. The Board found that limitations described in the dependent claims were disclosed in the specification. As such, the Board concluded that those elements cannot contradict the basic characteristics of the invention as suggested by the Examiner. *Ex parte Ueda*, Appeal No. 2004-1584 (BPAI December 23, 2004)) (non-precedential).

## Feature Commentary: Practical Strategies To Develop An IP Portfolio

By Hung H. Bui

From the day it is founded, a technology company should consider adopting an aggressive IP strategy that would provide a strong IP portfolio. IP rights should be obtained to protect not only various aspects of the company's core technology and commercial interests at various stages of design, manufacturing and product operation, but also technology that may be of interest to non-competing companies. At the design and development stage, copyrights and trade secrets can be immediately enforced. Core technologies embodied in novel products and methods (e.g., key methods and processes - whether these are manufacturing, distribution, or even business methods) that deliver the greatest performance advantage over rival products in the market can then be patented and trademarked. Once a product or service is developed, issued patents and registered trademarks protect the technology and associated names and symbols. An aggressive IP strategy can block competitors from the company's present market and potential future market, and can also force a license bringing revenue to the company. A strong IP portfolio can be used to attract financing from venture capitalists, enhance future strategic alliances, and promote product differentiation.

However, securing IP rights could require significant resources (time, staff, and funding) that a startup company may not necessarily have. As a result, a startup company should adopt a **Two-Level IP Strategy**, which consists of using as much as possible the free-of-charge protection tools such as copyright and trade secrets, and of making a cost benefit analysis with respect to trademark and patent protection.

1. **First Level IP Strategy**:

A. Trade Secret Considerations

- Mark all company's "confidential" documents and materials as such;
- Have employees, contractors, and 3rd parties sign non-disclosure, or confidentiality agreements requiring restrictions on disclosure, prohibiting misappropriation or misuse of trade secrets, and preventing disclosure of sensitive information to future employers;[1]
- Have applicants sign a statement confirming that they will not bring to their new job any confidential or propriety information or trade secret from their former employer, and that they will not reveal such information either during the recruitment process or after being hired; and
- Conduct exit interviews with departing employees reminding them of their post employment confidentiality obligations.

B. Copyright Considerations

- Place a copyright notice (© plus year of publication or creation plus name of copyright owner) on all the documents, computer programs (both high level software and low level operational codes) and Web pages produced by the company; and
- Consider filling such computer programs at the U.S. Copyright Office for registrations (typically, for a nominal fee).

C. Ownership Considerations

- Have founders, employees, consultants, or 3rd parties sign agreements to assign all (current or future) IP rights to the company, including, for example, copyright in the software written by vendors or independent contractors; and
- When conducting joint research with other enterprises, universities, or governments, make sure that there is sufficient clarity on who will own potential IP generated from the research project.

Listed below are some example rights of universities, governments and co-inventors:

(i) Rights of Universities: Agreements between universities and inventors of the key technology should be studied to ensure that a university cannot assert rights in the company's IP. Universities may have collaborator rights to a company's IP as well.

(ii) Rights of the Government: A company funded by government sponsorship should be aware the government might retain rights in a patented or unpatented invention resulting from government support. Such rights may include the right of the government to practice the claimed invention or to have others practice the same on behalf of the government, all without compensation to the company, as well as unique reporting requirements which can result in complete forfeiture of rights if not followed.

(iii) Rights of Co-Inventors: In the absence of a contrary agreement, each co-inventor retains the right to practice the invention without compensating the other co-inventors. Therefore, if IP assignments are not rigorously enforced, a co-inventor that has not assigned IP rights to the company can assign those IP rights to another company to the detriment of the startup.

**2. Second Level IP Strategy:**

A. Trademark Considerations

- Select trademarks that are inherently distinctive, i.e., fanciful, arbitrary, or suggestive;
- Check trademark databases for clearance (for example, at U.S. Patent & Trademark Office "USPTO" at www.uspto.gov);
- Search selected trademarks, via known search engines on the Internet, such as Google or Yahoo, for common law problems; and
- Consider filing selected trademarks at the USPTO for registrations (typically, about $3000 - $5000 per registered mark).

B. Patent Portfolio Development:

[1] Most states, except California, recognize non-compete agreements with reasonable restrictions on employment practice.

A fundamental objective of a patent portfolio is to protect the core technologies (family jewels), core products and business practices of the company. Additionally, patents may be obtained that enable the company to enter into reciprocal (i.e., cross) licensing arrangements with competitors who assert patent infringement claims against the company in the same field of interest. Considerations should also be given to acquisition of patents from others in addition to patents resulting from internally developed technology. Obviously, significant financial resources are required to obtain protection for the core technologies and all core products. However, the high cost associated with obtaining proper patent protection can be controlled depending upon whether the patent portfolio is intended for "defensive" or "offensive" purposes. Either way, patentable subject matter needs to be identified early enough to avoid losing the invention to competitors. In addition, patentable inventions should not be disclosed, offered for sale, shared with others or published before filing a patent application, or at least within a 1-year grace period of such disclosure or publication.

(i) Defensive Strategy:

A "defensive" strategy should be considered if financial resources are limited, and if competitors are seen as unlikely to copy the company's products. Patent applications should be filed to protect core technologies (family jewels) embodied in core products that deliver the greatest performance advantage over rival products in the market. Provisional patent applications should be considered for other types of technology until financial resources could be secured. The advantages of filing provisional patent applications will be discussed in a separate section below. In addition to provisional patent applications, defensive publications should also be considered with regard to various improvement features or incremental innovations so as to prevent competitors from gaining improvement patents that could block the company from effectively using the core technologies. Freedom-to-operate (FTO) opinions should further be obtained from outside counsel to ensure the startup company's ability to function in the marketplace in view of the patent rights of others. In particular, FTO opinions should identify others' patents that will block or severely limit the company's ability to market a product or establish a dominant patent position. Such FTO opinions may be necessary because a patent does not provide the company the right to commercialize the protected technology but only the right to exclude all others from commercializing the same.

(ii) Defensive Values:

The following are typical values and uses of a well implemented patent strategy.

- IP assets
- Cross-licensing as bargaining chip
- Counterclaims
- Valuation
- Prestige
- Funding

(iii) Offensive Strategy:

An "offensive" strategy should be considered if significant resources (time, staff, and funding) are available to lock up a new technology space, and create a patent wall of patent protection covering key differentiating features that reinforce and communicate the product's brand positioning and key performance. In addition, key methods and processes need to be patented - whether these are manufacturing, distribution, or even business methods - that are essential to the building, marketing, or selling of the product. Listed below are different types of patents obtained for "offensive" reasons:

(a) "Picket Fence" Patents:

Obtain patents on all commercially available improvements or small incremental innovations around the core technology of a competitor, which can serve as a barrier to the effective use of the competitor's core technology. The owner of the picket fence is then in a position to force a cross-license of patents to acquire the competitor's core technology for its own use. For example, when faced with a fundamental patent of another for a new technology, the strategy is to file patent applications on every conceivable improvement so that as the technology develops, the competitor will not be able to improve upon the original invention without obtaining a license.

(b) "Design-Around" Patents:

Obtain patents based on efforts to design around a company's own patents in order to prevent competitors from inventing around the patents. Usually, designing around solutions that avoid infringement of the patent

can also be patented. Design around a competitor's patents can be an effective part of a response to a competitor's action for patent infringement. Moreover, design around efforts can also be a very effective method to prepare a new product introduction into a competitive market while avoiding liability for infringement.

(c) "Toll Gate" Patents:

Identify the direction of competitor's patent portfolio or industry R&D, so as to obtain patents with very broad claims for the next generation of improvements or products, even when a company may have only a vague concept of the best products to implement these improvements. This way the patents can act as a toll gate to the industry when its actual products develop to that level of advancement.

(d) Acquisition of Patents:

Acquire key patents owned by others in areas of current or future interest.

(e) Competitor Watches:

Survey the existing patent landscape, and monitor the marketplace to identify infringing products and services. For example, on-line databases for patent related information can be used to search for patent activities centered around a key patent owned by the company in order to identify potential infringers of the patent.

(iv) Offensive Values

Among other offensive uses and values, the ability to obtain royalty income and to enforce injunctions are key.

**3. Special Considerations:**

In addition to patents on core products and processes, software and business method patents deserve special considerations.

A. Software Patents:

Software technologies such as computer programs, electronic databases, graphical display screens and user interfaces, and related media can be protected by copyright at virtually no cost. In fact, copyright protection is often suitable to secure digital media such as video and audio creative works, often even without compliance with copyright registration and notice requirements. However, copyright protection of computer software, both high level software and low level operational codes, is legally vulnerable to reverse-engineering efforts by competitors. In this scenario, perhaps patent protection may be more appropriate to secure the underlying ideas or functions of a novel algorithm, data structure, methods and computing software machines.

B. Electronic Commerce & Business Method Patents:

E-commerce and business method patents are important for Internet-based startup companies because these patents can be used to block out the competition from offering a similar product or service in a business climate with low barriers to entry. These patents can be a great "equalizer" for small companies attempting to enter a competitive market of large players. Listed below are example e-commerce and business method patents obtained for a wide variety of e-commerce business models:

**Amazon.com**

U.S. Patent No. 5,727,163

Secure method of communicating credit card data when placing an order on a non-secure network.

U.S. Patent No. 5,960,411

A "1-click" ordering system that allows repeat online shoppers to buy items by clicking a single button, without having to fill out payment and shipping information each time.

**Priceline.com**

U.S. Patent No. 5,794,207

Bilateral buyer-driven (so called, "name your price") e-commerce system covering a "reverse auction" concept in which the buyer names a price it will pay (e.g., for airline tickets) and guarantees payment with a credit card.

**CoolSavings.com, Inc**

U.S. Patent No. 5,761,648

Distribution of coupons, via the Internet.

**Mastercard Int'l.**

U.S. Patent No. 5,699,528

System for bill delivery and payment, via a network.

**Citibank**

U.S. Patent No. 5,930,764

Sales and marketing support system using a customer information database.

E-commerce and business method represent the new patent frontier. The Internet has redefined business, allowing anyone to create unique, automated business processes and to scale them rapidly. However, controversy continues to exist because of the relatively broad scope of coverage and the potential for inventors to own patents covering entirely new systems of commerce where the economic stakes are very high.

**4. Patent Filing Considerations**:

Since startup companies have limited resources (time, staff, and funds), the following are suggestions for an efficient approach to patenting inventions:

A. Avoidance of Statutory Bar Dates:

A patent application may not be filed in the U.S. if the invention has been published anywhere or has been in public use or "on sale" in this country more than one year prior to the filing date. An invention can be considered "on sale" where it has only been "offered for sale," not actually sold. In most foreign countries there is no one year grace period for public disclosures.[2]

B. Provisional Applications:

An alternative to the filing of a traditional patent application is the filing of a provisional application in order to obtain an early filing date. A provisional application does not require all of the formalities of a regular application, and is less expensive to prepare and file in the USPTO. Several aspects of a provisional application include:

- Does not receive substantial examination and cannot mature into a patent. A regular (utility) application must be filed within 1 year to receive the benefit of its earlier filing date;
- Does not trigger the start of the 20 year patent term; and
- Requires the filing of a sufficiently detailed specification to satisfy the (1) "enablement," and (2) "best mode" requirements of the patent law under *35* U.S.C. § 112.

Other aspects of a provision application include: (1) no requirement for inventor signatures, (2) no requirement of patent claims, and (3) no publication of such a provisional application.

Especially useful for startup and companies starting their patent portfolio, one approach is to file a series of provisional applications at different stages of developments to capture all improvements and establish a filing date for these improvements. So long as one or more regular applications are filed within 1-year of the earliest provisional application, the later filed regular applications may claim priority back to all of the provisional applications.

C. Foreign Filings with Selective Key Markets - (PCT):

Foreign filings can be extremely expensive, even for established multinational corporations doing business in foreign markets. Nonetheless, startup companies doing business in countries outside the U.S. or faced with overseas competitors need to understand the differences between U.S. patent regulations and foreign patent regulations and deadlines, and to formulate a global patenting strategy that is consistent with the business plan in terms of potential foreign markets, competitors, and cost-benefit considerations.

For example, when overlapping patent applications are filed by two independent inventors, the United States uses the "first to invent" rule, whereas the rest of the world uses "first to file" rule to determine which inventor will be granted the patent. In addition, in the U.S., once an invention is placed on sale or disclosed publicly, a 1-year clock is started. Within 1-year, the inventor must file a patent application in the USPTO, or else the invention will lapse into the public. In most other countries, however, there is no grace period after a

[2] Most industrialized foreign countries (not Taiwan) are members of the Paris Convention which provides that one who files a patent application in any member country has up to one year to file subsequent applications in other member countries and be able to backdate the effective filing dates of the subsequent applications to that of the first filed application. Therefore, an application filed in the U.S. before any public disclosure will enable subsequent filings in other member countries within one year, even if an intervening public disclosure occurs.

public disclosure or sale has occurred. Once an invention is placed on sale or disclosed publicly anywhere in the world, it is barred from patentability and is in the public domain. As a result, startup companies that want to sell their products overseas should learn the proper procedures for acquiring foreign patents. However, the Patent Cooperation Treaty (PCT) procedures could provide a platform for a single international patent application based on an earlier U.S. patent application to be processed and entered in the National Phase of all designated PCT member countries (except Taiwan) some 30 months after the PCT priority date for examination and issuance. This way, smaller companies could delay many of the filing costs until they have time to access those markets.

Because of the differences between the U.S. and foreign patent procedures, startup companies interested in developing overseas markets should consider the following steps: First, because most countries outside the U.S. award patents to the "first-to-file" a patent application, U.S. startup or small technology companies should keep their invention confidential until patent applications are filed, and then file U.S. patent applications as soon as possible. Then, within a year, a corresponding PCT application should be filed which would have the effective filing date of the U.S. patent application. Second, because placing a product on sale creates an immediate ban on its patentability in most countries, it is critical that U.S. startup or small companies file for at least a U.S. patent application before publicly marketing an invention. Finally, U.S. startup or small companies need to be sure to apply for foreign patents before U.S. patents are issued. If a U.S. patent is published before a company files a foreign patent application, most foreign patents will be barred.

Alternative strategies regarding to PCT filings should also be considered. For example, a corresponding PCT application could be filed claiming priority from an earlier filed provisional patent application, rather than a traditional patent application. As previously discussed, the provisional application is significantly less expensive than the traditional patent application and, more importantly, is not publishable so as to avoid publication barring events. The PCT application could then be entered National Phase in the U.S. at any time after the PCT application is filed for search and examination purposes. Similarly, a PCT application could be filed as a first filing in the U.S. to avoid redundant filing costs and to selectively speed up/streamline national processing. These options could be attractive for certain fast-moving technologies where long delay may mean product obsolescence before patent issuance.

D. Fast-Tracking the Patent Process - Petition to Make Special:

A patent application normally does not get examined initially for about 2-3 years from the original filing date; and the average pendency of a patent application in the USPTO from filing to issuance is about 3-4 years. However, a fast track procedure is available in the USPTO, whereby the applicant can "Petition to Make Special" for an accelerated examination. A requirement for the granting of the petition is that the applicant must perform a prior art search and submit the results to the USPTO along with the petition, along with a statement of the relevancy of each reference.

E. Reissue:

Consider filing a request for reissue to broaden the scope of claims (within 2 years) to create literal infringement of a newly developed product of competitor(s).

F. Reexamination:

Consider filing a request for re-examination as part of a defense strategy (often time, anonymously) to challenge the validity of a competitor's key patents on the basis of new issues of patentability raised by a prior art.

G. Continuation Applications and Continuation-in-Part (CIP) Applications:

Consider keeping continuation applications and/or continuation-in-part (CIP) applications pending in the USPTO for important technology that is still evolving. CIP applications should be considered when new features, improvements or future modifications are discovered and need to be incorporated into the original patent application, and claims could be shaped to follow the direction of technological evolution. Such continuation and CIP applications should be regarded as a bridge until a potential infringer is found. When a potential infringer is found, consider filing a Petition to Make Special and include claims that will capture the actual infringer literally.

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