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Federal Circuit Finds Patent License Limiting Component Combination Prevents Patent Exhaustion and Implied License

In *LG Electronics, Inc. v. Bizcom Electronics, Inc.*, 453 F.3f 1364, 79 USPQ2d 1443 (Fed Cir. 2006), all parties appealed from the District Court for the Northern District of California. The Court of Appeals affirmed-in-part, reversed-in-part, vacated-in-part and remanded for further proceedings.

LG Electronics, Inc. (LG) is the owner of patents relating to personal computers including patents 4,918,645; 5,077,733; 4,939,641; 5,379,379; and, 5,892,509. LG sued the defendants alleging infringement of these patents. The defendants purchased microprocessors and chipsets from Intel or Intel's authorized distributors and installed them in computers. Under an agreement with LG, Intel was authorized to sell the microprocessors and chipsets to all of the defendants. However, pursuant to the agreement between LG and Intel, Intel was required to notify the defendants that although Intel was licensed to sell the products, they were not authorized to combine the products with non-Intel products.

In 2002, LG brought suit against the defendants asserting that the combination of microprocessors or chipsets with other computer components infringes LG's patents covering those combinations but did not assert patent rights in the microprocessor or chipsets themselves. The District Court, after deciphering the patent claims, granted summary judgment of non-infringement for each patent. The District Court determined that there was no implied license to any defendant, however, with the exception of the '509 patent, LG's rights in any system claims were exhausted. It also found that LG was contractually barred from asserting infringement of the '509 patent against the defendants and found the '645, '733 and '379 patents were not infringed after applying claim construction to the accused methods and devices.

Implied Licensing

Reviewing the District Court's granting of summary judgment without deference, the Federal Circuit first considered the issue of implied licensing. "In a suit for patent infringement, the burden of proving the establishment of an implied license falls upon the defendant." *Bandag, Inc. v. Al Bolser's Tire Stores, Inc.*, 750 F.2d 903, 924 (Fed. Cir. 1984). The Federal Circuit stated that the defendants were required to establish that the products have no noninfringing uses and that the circumstances of the sale…plainly indicate that the grant of a license should be inferred. Concluding that no implied license existed between LG and the defendants, the Court stated that because Intel expressly informed them that Intel's license agreement with LG did not extend to any of defendant's products made by combining an Intel product with a non-Intel product no license could be implied.

Patent Exhaustion

The Federal Circuit next considered the issue of patent exhaustion for each of LG's patents. It stated, "an unconditional sale of a patented device exhausts the patentee's right to control the purchaser's use of the device thereafter…however, the exhaustion doctrine does not apply to an expressly conditional sale or license. In such a transaction, it is more reasonable to infer

that the parties negotiated a price that reflects only the value of the use rights conferred by the patentee."

The Federal Circuit found the LG-Intel license expressly disclaimed granting a license allowing computer system manufacturers to combine Intel's licensed parts with other non-Intel components. It further found that this conditional agreement required Intel to notify its customers of the limited scope of the license and although Intel was free to sell its microprocessors and chipsets, those sales were conditional and Intel's customers were expressly prohibited from infringing LG's combination patents. As a result, the Federal Circuit held LG's rights in asserting infringement of its systems claims were not exhausted, reversing the District Court's holding with respect to the system claims. With respect to the method claims, the Federal Circuit also found that even if the exhaustion doctrine were applicable to method claims, it would not apply in the LG case because there was no unconditional sale. It held that a sale of a device does not exhaust a patentee's rights in its method claims and resultantly affirmed the District Court's holding with respect to the method claims.

Claim Interpretation Issues

"Control Unit" Term Does Not Invoke 35 U.S.C. 112, Para. 6

The Federal Circuit next reviewed the District Court's granting of summary judgment of non-infringement on the ground that LG was contractually barred from asserting infringement against the defendants with respect to the '509 patent. The Federal Circuit held that because a genuine issue of material fact existed as to whether the defendants fell within the protection of a contract provision between LG and Microsoft barring LG from suing Microsoft, its suppliers, their subsidiaries or their licensees, it reversed the District Court's granting of summary judgment of non-infringement. On remand, the defendants must establish that LG is contractually barred from pursuing infringement claims against them.

Because the parties also disputed the District court's construction of several claim terms in the '509 patent, the Federal Circuit also reviewed the District Court's finding that claim 35 was a means-plus-function. LG claimed the District Court erred when it construed the term "control unit" as a means-plus-function limitation. The Federal Circuit stated "A claim that does not use means will trigger the rebuttable presumption that §112 AP 6 does not apply…but this presumption can be rebutted by showing that the claim element recites a function without reciting sufficient structure for performing that function." The Federal Circuit held the claim limitation at issue does not use the term means such that there is a presumption that the claim term is not a means plus function claim. Additionally, the Federal Circuit found that the claim recited specific structure, including a CPU and a memory, such that the presumption against means-plus-function treatment is not overcome. Thus, the Federal Circuit held that the recited control unit is not written in means plus function form.

"Requesting Agent" Defined Based On Intrinsic Evidence and Industry Standard

In reviewing the District Court's interpretation of the recited term "requesting agent," the Federal Circuit held the District Court erred when it failed to give proper weight to the incorporated industry standard and failed to consider the standard as intrinsic evidence of the meaning to one of ordinary skill in the art as of the filing date. Thus, the Federal Circuit concluded that LG's proffered definition based on the standard is correct and thus, the term "requesting agent" meaning "an agent that has entered into the arbitration function for bus access" was entirely consistent with the specification.

The Federal Circuit found that while prosecution history is relevant to claim construction, it often lacks the clarity of the specification and thus is less useful for claim construction purposes. Further, while it agreed with the District Court that the patentee (LG) did not act as its own lexicographer, the specification made clear that the term requesting agent is properly construed to mean an agent that has entered into the arbitration function for bus access.

Potential Impact on Patent Licensing

In conjunction with *Monsanto Company v. Mitchell Scruggs*, 459 F.3d 1328 (Fed. Cir. 2006) discussed below, these cases highlight the patent owner's ability to control the uses of their sold products so long as the patent owner does what the software industry has long done: only grant licenses to the patented technology. Such licenses license the patent for only certain uses, but expressly do not license other uses. Thus, a patent owner could use these restrictions to prevent duplication, reverse engineering, reconstructions, or other behavior detrimental to the product. It should be noted, however, that, while there is no per se rule that the patent confers market power, any such restriction may come under antitrust scrutiny where the restriction

ties the patented product to another service/product and there is market power in the patented product. *See Supreme Court Finds Existence of Patent Does Not Confer Market Power Sufficient to Find Antitrust Injury*, pp. 1-2 of Stein, McEwen & Bui Newsletter (Vol. 2, Issue 1)(2006) *discussing Illinois Tool Works Inc. v. Independent Ink Inc.*, 77 U.S.P.Q.2d 1801, 126 S.Ct 1281 (2006).

Federal Circuit Finds Motivation to combine can be based upon implicit teaching supported by evidence at time of invention

prima facie case of obviousness can be based upon implicit teaching supported by expert witness evidence about understanding at time of invention

In *Alza Corporation v. Mylan Laboratories*, Case No. 06-1019 (Fed. Cir. Sept. 6, 2006), the Federal Circuit upheld a district court's decision that plaintiff-appellant Alza's patent (6,124,355) was invalid and was not infringed by defendant-appellee Mylan's generic version of an extended release anti-incontinence drug, oxybutynin.

The court upheld the finding that the patent was invalid as obvious while primarily discussing the "motivation-suggestions-teaching" doctrine. The court defended the motivation requirement as flexible because the motivation need not be found explicitly in the prior art so long as there is evidence in the record as to why, at the time of the invention, one skilled in the art would make the asserted combination. While an explicit motivation to combine is one way to meet this test, the Federal Circuit held that the broader inquiry rests "on the unremarkable premise that legal determinations of obviousness, as with such determinations generally, should be based on evidence rather than on mere speculation or conjecture." Moreover, in meeting the prima facie burden for obviousness, "where the testimony of an expert witness is relevant to determining the knowledge that a person of ordinary skill in the art would have possessed at a given time, this is one kind of evidence that is pertinent to our evaluation of a prima facie case of obviousness." Thus, it is sufficient for the record show some evidence demonstrating that, at the time of the invention, information was available which would lead one skilled in the art to make the combination.

In applying this test, the court held that the motivation to combine oxybutynin and the time-release pill delivery system existed to the person of ordinary skill in the art in 1995 (the time of the '355 patent filing) based upon expert witness testimony. Plaintiff argued that two prior art references demonstrated that, in 1995, no one knew that oxybutynin would be well-absorbed in the colon and thus would not be motivated to create a time release pill form factor. The court found that both references in fact implied that drugs such as oxybutynin would be well-absorbed in the colon, and that the expert witness testimony on the knowledge of persons in the art at the time of the invention was sufficient to meet a prima facie burden for obviousness purposes. The Federal Circuit held that the Plaintiff had failed to rebut this prima facie burden since the applied references did not undercut the witness' testimony and no other evidence contradicted the testimony or otherwise showed that the expectations were other than that set forth by the expert witness, and found the claims invalid under 35 U.S.C. §103.

The court upheld the finding of non-infringement because Alza failed to submit evidence sufficient to demonstrate that Mylan's formulation met the time-release characteristics claimed in the '355 patent. Alza submitted profiles of the amount of drug in a subject's blood for both Alza's and Mylan's formulation, and similarly submitted evidence of similar release times in laboratory apparatus for the two formulations. However, since the '355 patent claimed the rate of in vivo dissolution in the gastrointestinal tract, and since Alza declined to link its two studies to the rate of in vivo dissolution, the court found that the Mylan formulation did not infringe the '355 patent.

Federal Circuit Finds that Licensing Limitations That Prevent Patent Exhaustion

For Use of Seeds Also Do Not Constitute Patent Misuse or Antitrust Violations

In *Monsanto Company v. Mitchell Scruggs*, 459 F.3d 1328 (Fed. Cir. 2006), Mitchell Scruggs (Scruggs) appealed the holding of the Northern District of Mississippi granting Monsanto Company (Monsanto) a permanent injunction against Mr. Scruggs and granting Monsanto's motions for summary judgment regarding patent validity and infringement to the United States Court of Appeals for the Federal Circuit. Mr. Scruggs also appealed the District Court's denial of his claims of antitrust violations, patent misuse, tortuous interference, unfair competition and invasion of property. The Federal Circuit affirmed the District Court's holding with respect to the motion for summary judgment of patent validity and infringement and the denial of Mr. Scruggs' cross-claims. The Federal Circuit further ordered the permanent injunction to be vacated and the case remanded to the District Court for reconsideration of the permanent injunction in light of the Supreme Court's *eBay Inc. v. MercExchange L.L.C.* holding.

Monsanto is the owner of U.S. Patent No. 5,352,605 ('605). The '605 patent is directed toward insertion of a synthetic gene consisting of a 35S cauliflower mosaic virus promoter amongst other advancements, to create herbicide resistance. Using the '605 patent, Monsanto developed glyphosate herbicide resistant soybeans and cotton which were sold as Roundup Ready (Roundup) soybeans and cotton. The licensing of Roundup Ready soybeans and cotton began in 1996. Monsanto further combined the '605 patent with patents No. 5,164,315; 5,196,525; and, 5,322,938. This combination was licensed in 1998 as Bollgard/Roundup Ready cotton technology.

Monsanto's licensing agreements with seed growers allowed the seed growers to incorporate Monsanto's biotechnology into their seeds. The licenses also required seed companies to avoid selling seeds to growers unless the grower signed a Monsanto license and that seeds sold under the license be used to grow only a single commercial crop.

Mr. Scruggs purchased the seeds produced under the Monsanto patents from seed companies but never signed a licensing agreement. Further, he harvested the soybeans and cotton, retained the new generation of seeds and subsequently planted the new seeds in a later generation of crops. Monsanto filed suit for infringement of their patents against Mr. Scruggs in 2004.

Patent Exhaustion

The District Court found the patent exhaustion defense claimed by Mr. Scruggs was inapplicable because Monsanto never made an unrestricted sale of its biotechnology. He argued that he purchased the Monsanto seeds in an unrestricted sale. As such, he was therefore entitled to use those seeds in an unencumbered fashion under the doctrine of patent exhaustion.

Relying on *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 701 (Fed. Cir. 1992); and *LG Electronics, Inc. v. Bizcom Electronics, Inc.*, 453 F.3f 1364, 79 USPQ2d 1443 (Fed Cir. 2006), the Federal Circuit held that the "first sale/patent exhaustion doctrine establishes that the unrestricted first sale by a patentee of his patented article exhausts his patent rights in the article." Based upon this standard, the Federal Circuit affirmed the District Court's denial of the affirmative defense of patent exhaustion because patent exhaustion was inapplicable to the Mr. Scruggs' case since there was no unrestricted first sale.

Specifically, the Federal Circuit found there was no unrestricted sale because the use of the seeds by seed growers was conditioned on obtaining a license, and because the new seeds grown from the original batch had never been sold in a manner corresponding to an unrestricted first sale. The Court therefore found that there can be no patent exhaustion as to a subsequent generation of seeds where there was no unrestricted first sale. Thus, the fact that a patented technology can replicate itself does not give a purchaser the right to use replicated copies of the technology. The Federal Circuit concluded that the application of the first sale doctrine to subsequent generations of self-replicating technology would injure the rights of the patent holder, and resultantly upheld the District Court's holding that the patent exhaustion defense is inapplicable.

Antitrust/Misuse

Mr. Scruggs claimed Monsanto violated the Sherman Act §1 and §2 by asserting that the exclusivity provision, no replant policy, and technology fee payments required by Monsanto's licensing agreement with seed growers are illegal anticompetitive practices. Mr. Scruggs also argued on appeal that Monsanto was tying the purchase of seed to the purchase of Roundup through grower license agreements, grower incentive agreements and

seed partner license agreements, a violation of section 1 of the Sherman Act. Mr. Scruggs also claimed Monsanto unlawfully monopolized or attempted to monopolize a relevant market under §2 of the Sherman Act and misused its patents.

Section 1 of the Sherman Act

The Federal Circuit first analyzed Mr. Scruggs' claim under section 1 of the Sherman Act, specifically, the claim of a tying agreement. The Court stated that a tying arrangement is the sale or lease of one product on the condition that the buyer or lessee purchase a second product. To prove a tying arrangement existed, he was required to show the involvement of two separate products or services; the sale of one product or service being conditioned on the purchase of another; Monsanto's market power in the tying product; and, the amount of interstate commerce in the tied product was not insubstantial.

In affirming the District Court's rejection of the anticompetitive claim under section 1 of the Sherman Act, the Federal Circuit stated Monsanto had a right to exclude others from making, using or selling its patented plant technology. Additionally, Monsanto's "no replant policy simply prevents purchasers of the seeds from using the patented biotechnology when that biotechnology makes a copy of itself." The Federal Circuit further stated Monsanto's uniform technology fee was essentially a royalty fee which was also within the scope of the patent grant. The Court lastly stated that a no research policy is a field of use restriction and is also within the protection of the patent laws.

The Federal Circuit also found Mr. Scruggs failed to point to sufficient evidence to establish that Monsanto's behavior constitutes illegal tying, that the grower incentive program was optional and not coerced and that Monsanto's seed partners were not forced to buy Roundup under the seed partner agreements. As a result, the Federal Circuit affirmed the District Court's rejection of the claim of an antitrust violation under section 1 of the Sherman Act.

Section 2 of the Sherman Act

The Federal Circuit next analyzed Mr. Scruggs' claim under section 2 of the Sherman Act which prohibits unlawful monopolization. The Court stated that proving a section 2 violation required that the party charged had "monopoly power in a relevant market and acquired or maintained that power by anti-competitive practices instead of by competition on the merits." The Court affirmed the District Court's denial of the unlawful monopolization claim under section 2 of the Sherman Act because he failed to provide sufficient evidence proving unlawful monopolization or attempted monopolization.

Patent Misuse

The Federal Circuit also analyzed Mr. Scruggs' claim under the patent misuse doctrine. Although the Court stated patent misuse can be found even where there is no antitrust violation, "the policy of the patent misuse doctrine is to prevent the patentee from using the patent to obtain market benefit beyond that which inures in the statutory right." Further, the Federal Circuit held that patent misuse requires a party to impermissibly broaden the scope of the patent grant with anticompetitive effect. As such, the doctrine of patent misuse does not extend to a patent owner by reason of his refusal to license or use any rights to the patent, which is within the permissible scope of the granted patent rights.

The Federal Circuit quickly affirmed the District Court's denial of the claim of patent misuse because patent misuse covers activities falling outside of the patent grant. Specifically, he did not point to any activity falling outside Monsanto's patent. Further, under the patent misuse doctrine, Scruggs was required to show that the challenged contract had an actual adverse effect on competition, which Mr. Scruggs failed to do. As such, the Federal Circuit found that Monsanto's conduct did not amount to patent misuse.

Federal Circuit Finds Statements in Summary of Invention And Disclaimer Of Competing Devices Limits Scope of Term "Alphanumeric Keyboard"

In *Wireless Agents LLC, v. Sony Ericsson Mobile Communications AB.*, Civ. Case. No. 06-1054 (Fed. Cir. July 26, 2006) (unpublished), Wireless Agents LLC (Wireless) appealed the holding of the United States District Court for the Northern District of Texas to the Federal Circuit. The District Court denied Wireless's motion for a preliminary

injunction seeking to enjoin Sony from selling the accused products in the United States. The Federal Circuit affirmed the District Court's ruling, denying the motion for a preliminary injunction against Sony Ericsson Mobile Communications AB (Sony).

Wireless is the assignee of U.S. Patent No. 6,665,173 entitled "Physical Configuration of a Hand-Held Electronic Communication Device." The lone independent claim of the '173 patent provides, "A hand-held, electronic computing device having a physical configuration comprising…an alphanumeric keyboard carried by the body portion…" The Federal Circuit stated the appeal for denial of a preliminary injunction would turn on the correct claim construction of the term "alphanumeric keyboard."

Relying on the methodology set forth in *Phillips v. AWH Corp.*, 423 F.3d 1303, 75 USPQ2d 1321 (Fed. Cir. 2005) (en banc), the Federal Circuit noted the scope of the term "alphanumeric keyboard" was not readily apparent from the face of the claim and that there was no common dictionary definition of the term. The Court provided that the term must be read in view of the specification of which it is part. The description of the invention in the Summary of Invention section stated that "The keyboard may be a keyboard with a layout such as the common QWERTY layout but not be limited to the particular layout…may include…any other alphanumeric layout that includes a substantially full set of alphanumeric keys." As a result, the Federal Circuit stated it could not allow Wireless to claim a keyboard with less than a substantially full set of keys "or risk injuring the public's right to take the patentee at his word."

The Federal Circuit also noted the specification explicitly referenced the disadvantages of keypads having only twelve digits when it stated, "the keypad is typically a twelve-digit keypad designed for numeric data entry…this method being extremely slow, awkward, error prone, and not appropriate for a device intended to transfer textual data on a regular basis." The Court stated, "where the specification makes clear that the invention does not include a particular feature, that feature is deemed to be outside the reach of the claims of the patent, even though the language of the claims, read without reference to the specification, might be considered broad enough to encompass the feature in question." Thus, the specification disclaimed coverage for keyboards such as twelve digit keyboards through such statements.

The Federal Circuit also considered extrinsic evidence including a statement by a Wireless expert witness but found that the expert's statement was conclusory and unsupported by reference to any contemporaneous document and therefore of no value in the claim construction analysis. As a result, the Federal Circuit held the District Court's claim construction was correct, that the undisputed evidence established that the accused device utilized twelve keys instead of a substantially fully set of alphanumeric keys and thus affirmed the denial of a preliminary injunction against Sony.

Significance to Claims Drafting

In view of *Phillips*, the Federal Circuit is increasingly looking to statements in the specification which appear to disclaim certain features and include other features for what would otherwise be a broad claim term. Therefore, it is important to review the Background of the Invention and the Summary of the Invention to ensure that desired embodiments are not accidentally disclaimed or discussed in a manner which limits the claims. It is further important to ensure that, if a potential use is known but is disfavored, the specification explicitly states that this disfavored use is still within the scope of the invention.

Federal Circuit Defines Claims In Continuation Applications Similarly Even Where Claims Differently Worded

In *Advanced Cardiovascular Sys, Inc. v. Medtronic Vascular, Inc.,* Civ. Case Nos. 05-1280, 05-1281, 05-1282 (Fed Cir. May 26, 2006) (non-precedential), the Federal Circuit affirmed a district court decision of granting a summary judgment of non-infringement of Medtronic's U.S. Patent No. 5,292,331 (the '331 patent), U.S. Patent No. 5,674,278 (the '278 patent), U.S. Patent No. 5,879,382 (the '382 patent), and U.S. Patent No. 6,344,053 (the '053 patent), which are drawn to stent devices and methods of delivery and manufacture and all of which are related patents.

In interpreting the claims of the '331, '278, '382, and the '053 patents at trial, the District Court had found that the terms "circular member," "stent member," "ring," and endovascular support member" have the same meaning as a "stent." The Federal Circuit upheld this construction since, while used in different claims and in different patents, these terms had no clear meaning from the specification and were "employed in a

manner analogous to and interchangeable with the term 'stent'."

Further, in interpreting the term "stent," the District Court found that Medtronic had clearly disavowed any stent not having straight segments ending at peaks. Specifically, during prosecution of the '331 patent, Medtronic asserted that the invention distinguished over the prior art since the stent used substantially straight segments connected to form ends, and that the ends must be at top or bottom. The Federal Circuit agreed that this assertion in prosecution was sufficient to disavow any additional element being used on the recited stent ends.

Moreover, even though the disavowal was arguably broader than necessary to overcome the prior art, the Federal Circuit held that "'there is no principle of patent law that the scope of a surrender of subject matter during prosecution is limited to what is absolutely necessary to avoid a prior art reference .... Norian Corp. v. Stryker Corp., 432 F.3d 1356, 1361-62 (Fed. Cir. 2005)." Since the broader disclaimer was applied to the claims of the '331 patent, this same disavowal applied to the remaining continuation patents: the '278 patent, the '382 patent, and the '053 patent. The Federal Circuit relied upon a statement in the prosecution of each of the '278 patent, the '382 patent, and the '053 patent that the claims were allowable "for at least the same reasons as the parent application."

Also, while acknowledging that certain of the claims, such as in the '053 patent, do not recite an "end," the Federal Circuit found that the claims instead recited a "turn." The Federal Circuit held that, since the specification and claims use the term "turn" synonymously with "end," the claims of the '053 patent also recite an end and are subject to the disavowal in the parent application.

Lastly, the Federal Circuit found that no doctrine of equivalents was available for the recited "stent" and the synonymous terms in any of the patents due to prosecution history estoppel caused by the broad disavowal in the '331 patent.

Significance to Patent Owner

This case is a further reminder that, In view of *Phillips*, the Federal Circuit will look to uses and disclaimers in related applications to disclaim certain features for what would otherwise be a broad claim term. Therefore, it is remember that what is asserted in one related case can be used in another related case. Thus, it is important to ensure that applicant's take steps to ensure that arguments from one application are not automatically applied in another application, and, if at all possible, to use differing claim language to help prevent claim interpretations from one related case becoming the interpretations for all of the cases.

U.S. Courts Active in Defining Sovereign Immunity For IP Actions

Federal Circuit Finds Patent Enforcement By A University Against Customers Insufficient to Waive Sovereign Immunity To Allow the Supplier To File An Independent Action Against University

In *Tegic Communications v. Bd. of Regents of the Univ. of Texas System*, 458 F.3d 1335 (Fed. Cir. 2006), Tegic Communications filed a declaratory judgment in the Western District of Washington against the Board of Regents of the University of Texas System ("the University") due to the University's enforcement of U.S. Patent No. 4,674,112 in the Western District of Texas against 48 cellular-telephone companies. Tegic Communications alleged that, since it supplied allegedly infringing software to 39 of 48 these companies, Tegic Communications was under a reasonable apprehension of suit. Relying on *Florida Prepaid Postsecondary Education Expense Board v. College Savings Bank*, 527 US 627, 51 USPQ2d 1081 (1999), the District Court dismissed the complaint as the University was immune under the Eleventh Amendment from patent infringement claims and had not waived its sovereign immunity for such claims by bringing suit against the 39 companies. The Federal Circuit affirmed the District Court's dismissal.

The Federal Circuit held that, while a State can waive its sovereign immunity by filing a patent infringement suit, the waiver does not extend to non-participants in the suit. Specifically, the mere filing of the patent infringement suit in a Federal court does not act as a full waiver of sovereign immunity through participation in a Federal regulatory process. The waiver extends only to compulsory counterclaims from the defendants in the action. Thus, the filing of the patent infringement suit in Western District of Texas represented only a limited voluntary waiver of sovereign

immunity in the Western District of Texas, and does not represent a voluntary waiver extending to non-parties in other Districts. Instead, the Federal Circuit agreed with the District Court that, while Tegic Communications might avail itself of the University's sovereign immunity waiver by intervening in the Western District of Texas action, the University retained its Eleventh Amendment immunity such that the case in Western District of Washington was properly dismissed.

Federal Circuit Finds Sufficient State Remedies Such That Sovereign Immunity Prevents Suit Against University

In *Pennington Seed v. Produce Exchange No. 299, et al.*, 457 F.3d 1334 (Fed. Cir. 2006), Pennington Seed, Inc. and AgResearch Limited (collectively "Pennington") filed suit against the University of Arkansas ("the University") for infringement and conversion of U.S. Patent No. 6,111,170 ("the '170 patent") in the Western District of Missouri. Relying on *Florida Prepaid Postsecondary Education Expense Board v. College Savings Bank*, 527 US 627, 51 USPQ2d 1081 (1999), the District Court dismissed the complaint as Arkansas was immune under the Eleventh Amendment from patent infringement claims and had not waived its sovereign immunity for such claims. Thus, the University, as a state entity, is also immune. The Federal Circuit affirmed the District Court's dismissal.

Specifically, the Federal Circuit held that 35 U.S.C. §§271 & 296 did not validly abrogate the States' Eleventh Amendment immunity for patent infringement as there were insufficient findings in the Congressional Record of a need for the Federal government to waive the State's sovereign immunity. Additionally, under Florida Prepaid, the Courts will similarly not abrogate the States' immunity for patent infringement based upon the Fourteenth Amendment where there is a state remedy available. The Federal Circuit noted that such alternate state remedies were admitted by Pennington when Pennington stated that the Arkansas legislature can consider claims in excess of $10,000, and as Pennington had alternately claimed damages for infringement under a state theory of conversion. Thus, the Federal Circuit affirmed the District Court in not using the Fourteenth Amendment to effectively waive Arkansas' sovereign immunity in regards to patent infringement.

Federal Claims Court Finds Federal Government Immune From Liability for Violations of the DMCA

In *Blueport Co., LLP v. United States*, 71 Fed. Cl. 768 (Fed. Cl. 2006), Blueport owned a computer program related to generating manpower resource requirements used by the Air Force. The computer program contained an automatic expiration function. Blueport alleged that the Air Force "hacked" into the computer program to alter the automatic expiration function, and that this hacking represented a violation of 17 U.S.C. § 1201(a)(1)(A) of the Digital Millennium Copyright Act (DMCA). 17 U.S.C. § 1201(a)(1)(A) prevents the "circumvent[ing] a technological measure that effectively controls access to a work protected under [Title 17, governing copyright]." The Court of Federal Claims held that, in order to decide the DMCA issue, there needs to be a clear state for a waiver of sovereign immunity for liability arising under the DMCA.

As there was no explicit waiver in the DMCA, the Court of Federal Claims reviewed the Tucker Act, 28 U.S.C. §1491, and found that this waiver only applies where the underlying cause of action creates a right to monetary damages against the Federal Government. As the DMCA did not contain a clear and unambiguous waiver of sovereign immunity and only vaguely imposes liability on "any party," the Tucker Act does not cure this omission.

Additionally, while 28 U.S.C. §1498(b) provides a waiver of sovereign immunity with regards to copyright infringement, the Court of Federal Claims found that the DMCA provides "a new violation and not merely a new subset of infringement." As such, 28 U.S.C. §1498(b) also does not afford relief for circumvention activities under the DMCA.

Sixth Circuit Limits Extent of Copyrightability of Uncopyrightable Forms To Selection and Organization

In *Ross, Brovins & Oehmke, P.C. d/b/a LawMode v. Lexis Nexis Group*, 2006 Fed App. 0358P (6th Cir. 2006), the Sixth Circuit Court of Appeals affirmed the lower court's dismissal of copyright claims LawMode made against its former business partner, Lexis Nexis Group. However, the Sixth Circuit reversed the lower court's dismissal of LawMode's breach of contract claims and remanded for further proceedings.

LawMode created a package of 576 individual Michigan legal form templates, which were marketed and sold under contract by Lexis Nexis for five years. After terminating the contract, Lexis Nexis offered its own package of 406 individual Michigan legal form templates. LawMode filed a seven-count complaint, all but two of which it voluntarily dismissed. Remaining for the consideration of the court was a copyright claim and a breach of contract claim.

The lower court dismissed the copyright claim, holding that, while LawMode's selection of forms was copyrightable, the selection was not infringed, and that organization of the forms, look of the screen, and interrelationships of the form variables were not copyrightable.

The Sixth Circuit affirmed, holding that neither of the two copyrightable elements of LawMode's product – the selection and categorization – were copied by Lexis Nexis. LawMode's selection of 576 from a universe of over 700 forms is copyrightable even if the underlying forms are not themselves copyrightable. However, the court held that because Lexis Nexis only included 61% (350 of 576) of the same forms as LawMode's product, this was not substantial verbatim copying and thus not copying under the strict standard set by the Supreme Court in *Fiest Publications v. Rural Telephone Service Company*. 499 U.S. 340 (indicating that facts can be used in a competing work so long as the competing work does not have the *same* selection).

Similarly, the court held that the form categories used in the two products were not similar enough to constitute infringement on Lexis Nexis's part. Where they are similar, the court noted, was in headings and classifications that had previously existed on the state of Michigan website organizing its versions of the forms. Lexis Nexis did not copy any of the non-obvious and non-public use categories that LawMode had created.

Next, the court held that the appearance of dialog boxes used to input information on the forms were not sufficiently original to be copyrightable. The court noted that the reason both product's dialog boxes look similar was because both relied on the same default setting in the commercial form-creating software use by both companies. Choosing the default setting was too trivial to be original, according to the court.

Likewise, the court held that the interrelation between the variables in the forms was not protectable by copyright. The court held that these relationships were non-creative because the relationships were compelled by the express terms of the underlying state-created forms. For example, permitting the form user to choose either the district **or** circuit court conveys no information beyond the pre-existing requirement that the form be filed in only one court. Since the interrelationships conveyed no information beyond that on the face of the form, the interrelationships themselves are not eligible for copyright.

While the Fourth Circuit affirmed the dismissal of LawMode's copyright claims, it reversed the lower court's dismissal of the contract claims under rule 12(c). The Fourth Circuit found that, assuming LawModes's factual allegations were true (as rule 12(c) requires), LawMode had stated a claim for breach of contract. Therefore, the court remanded the case for further consideration of the breach of contract claim.

Seventh Circuit Holds that, for a Case or Controversy to Exist in Trade Secret Action, There Must Be Evidence of Trade Secret and Value of the Secret

In *BondPro Corporation v. Siemens Power Generation, Inc.*, 2006 U.S. App. LEXIS 23183 (7th Cir. 2006), the 7th Circuit affirmed the district court's judgment for manufacturer Siemens as a matter of law, finding that BondPro's claimed trade secret had not been revealed in detail sufficient to show that it had commercial value.

BondPro demonstrated to Siemens a particular method of bonding insulation to U-shaped slots that form part of Siemens' generators, hoping to license the technique. Siemens, although told by BondPro that this technique was proprietary, later applied for a patent on a similar process. The Patent Office rejected the application and neither Siemens nor BondPro ever put the method into use. Yet BondPro sued for theft of a trade secret. The district court jury found for plaintiff BondPro, but the judge found for the defendant Siemens as a matter of law. BondPro appealed.

After resolving several jurisdictional issues that resulted largely from the sloppiness of the lawyers in this case, the court turned to the issue of if there is a case or controversy. Here, the court explained that to have a case or controversy, BondPro needs to showing that it has

something tangible to gain from reinstating the jury's verdict. Thus the court examined the claimed trade secret to see if it has value.

The court pointed out that in many cases applying for a patent on what was previously a trade secret will destroy that trade secret by making it public knowledge, even if no patent is granted, since the PTO publishes applications after 18 months. However, in this case, Siemens allegedly stole the secret method, and in these circumstances would be liable.

Liable for what? Judge Posner precluded money damages, noting that there was no evidence that the technique had any commercial value whatsoever. Yet he inquired further into injunctive relief. BondPro appeared to have taken the proper steps to protect its trade secret, avoiding invalidation by its own inaction.

It all comes down to, in the court's opinion, what the claimed trade secret is. The general process as described in the first claim of the Siemens application was arguably something known in the trade already, as it had been demonstrated at a year 2000 trade convention. But no further details of its secret process were provided by BondPro at trial. The court noted that usually one expects trade secrets to be highly detailed because general processes will most often be known to experts in the field. Since BondPro has not provided details that would distinguish its "trade secret" from publicly-known methods, the court concluded that there was no trade secret. Since there was no trade secret, BondPro has nothing to gain from reinstating the jury verdict; and thus there was no case or controversy as required by the Constitution. As such, the district court's JNOV is affirmed.

Significance to Trade Secrets Owners

This case highlights an important rule in trade secrecy protection: the trade secret must be provable as a secret. One easy mechanism for so doing is to ensure all proprietary materials are specifically identified, such as by a label on a header of each page and/or by including in a license clarifying that trade secrets are being delivered. However indicated, such evidence is a pre-requisite to successful trade secret enforcement.

United States Patent And Trademark Office Proposes 5 Year Strategic Plan

By Michael D. Stein & Samuel L. Gompers

The PTO has released a draft of its 5-year plan to modernize, streamline, and improve its oversight of, and interactions with, all phases of intellectual property practice. The foundational theme promulgated by the USPTO in its Strategic Plan for 2007-2012 follows the mantra "better, faster, cheaper." The Plan lays out primary goals focusing on interactions among the USPTO and its customers, domestic and international applications of IP policy, and internal managerial policies at the USPTO. The Plan seeks to implement and attain these goals under the over-arching guiding principles of 1) *quality*; 2) *certainty*; 3) *cost-effectiveness*; and 4) *accessibility*. Initiatives encompass an end-to-end approach to accomplishing the goals, beginning with the inventive/research/business steps, to interaction with the PTO (patent prosecution, appeals, policy making, etc.), culminating with final dispositions by the PTO (grants, denials, policies, etc.) and the associated effects and consequences of intellectual property, both on the PTO and overseas entities, viz. a viz. their interactions with the PTO. The broad spectrum of challenges facing the PTO over the next several years includes: adapting its workforce to handle the increased number of applications; optimizing communication and interactions with IP offices around the world; promoting better awareness of IP matters in the general public, both domestically and abroad. Four goals highlight and deal with these challenges:

Goal #1—*Optimize patent quality and timeliness*. This will be achieved by hiring up to 7200 examiners; enabling work from home or regional PTO centers; providing examiners with improved software tools to optimize examination; implementing full and improved electronic patent processing, including a switch to a new Patent File Wrapper (PFW) system which would allow real-time changes to patent applications with reduced PTO processing times and centralized on-line docketing systems; and improving appeals processes within the Board of Patent Appeals and Interferences (BPAI).

Goal #2—*Optimize trademark quality and timeliness*. This features the same basic approach laid out for optimizing patent quality. In addition, first action and final disposal pendency times will be reduced (3 months for first action times); electronic file management for post registration and petition processes will be expanded; the Trademark Electronic Application System (TEAS) will be redesigned and ultimately switched to full on-line docket management by 2010.

Goal #3—*Improve IP protection and enforcement domestically and abroad*. The PTO will promote global

uniformity in IP practice, which includes standardizing electronic processing, and Patent Cooperation Treaty (PCT) reform; intellectual property rights will be expanded via Free Trade Agreements; greater outreach and awareness of IP policies and practice will be initiated by the PTO through increased involvement with academia and business.

Management goal—*Achieve organizational excellence within the PTO*. This features top to bottom administrative improvement in all aspects of internal function at the PTO. A more efficient and happier (via improved human resources) workforce will be employed; communications with other IP offices will be strengthened; fiscal procedures will be tightened to reduce costs and customer processing errors; on-line access to certain PTO documents will be made easier; and overall customer service will be improved.

In conclusion, the PTO hopes to achieve its goal of quality of examination and streamlined performance by reforming current examination procedures and hiring a superior workforce. Certainty in such performance can be assured through improved work tools, which in turn fosters greatly improved communication internally and externally. Quality and certainty are ultimately manifest through the cost-effectiveness of project management and concomitant work product measurement. Finally, customers and the public will be able to gain accessibility to the PTO (and the practical aspects as well as concepts of intellectual property) through standardized Internet based methods of interaction.

New Rule Change of Note from United States Patent And Trademark Office For Information Disclosure Statements

By James G. McEwen

On July 10, 2006, the U.S. Patent and Trademark Office (USPTO) proposed changing the Information Disclosure Statement requirements in order to reduce the burden on the Examiner due to large submissions (i.e., large numbers of documents or large documents). The complete proposal is found at 71 Fed. Reg. 38808, with more detailed comments and explanations found at http://www.uspto.gov/web/offices/pac/dapp/opla/presentation/focuspp.html#ids.

The USPTO proposed these rule change as part of the USPTO's Focus the *Patent Process in the 21st Century* plan, and are designed to "encourage patent applicants to provide the USPTO the most relevant information related to their inventions in the early stages of the review process." In order to achieve this goal, the USPTO is proposing applicants submit additional information about the submitted documents which varies dependent on the timing of the submission, as well as the number of submissions.

As summarized in the below table, the proposed rules for filing Information Disclosure Statements are segregated according to time periods denoted First, Second, Third, and Fourth Periods. The submission requirements are detailed below.

Submission During First Period

The First Period is prior to a first Action on the merits. During this period, the applicant can generally file a submission without anything further. However, where the applicant is filing a foreign language document, any document in excess of 25 pages, or where the sum total of documents filed to date exceed 20, the applicant would be required to provide a materiality explanation.

The materiality explanation essentially requires the applicant to provide information about which page and/or drawing of the submitted document is of relevance to which claims. Where the document is provided as part of a foreign office action, the submission of the office action qualifies as the materiality explanation. Additionally, the applicant would be required to submit any existing English language translation for each foreign document in the applicant's possession.

Submission During Second Period

The Second Period is after the first Office Action and prior to a Notice of Allowability. Thus, this period exists even after a Final Office Action. In the Second Period, the applicant would be required to provide "more extensive disclosure requirements." However, if the submission is due to a foreign office action, the applicant can file the submission so long as the applicant states that no documents in the submission

were known within the past three months, which is also current practice.

In contrast, if the submission is not due to the foreign office action or if the documents were known for longer than three months, the applicant would need to provide both the materiality explanation and a non-cumulative explanation of the document. Unlike current practice, there would be no fee.

The non-cumulative explanation requires an explanation of how the document is not cumulative of prior submissions. Thus, the applicant needs to provide a description of what feature in the submitted documents is not shown in the already-filed documents.

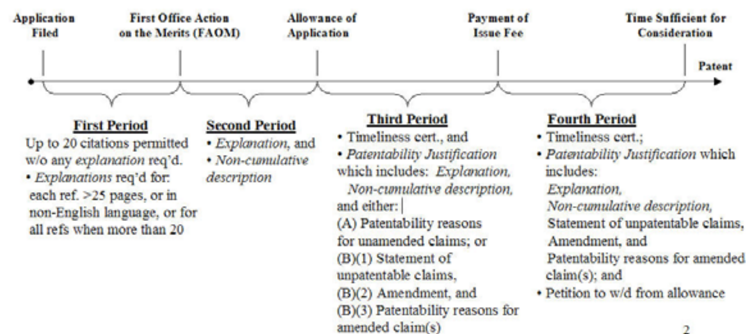
Submission During Third Period

The Third Period exists where there has been a Notice of Allowability, but the Issue Fee has not been paid. In the Third Period, documents can be submitted if the applicant can comply with 37 C.F.R. 1.97(e)(1) in that the document was not known in the prior three months. In addition, the applicant must provide the materiality explanation, the non-cumulative explanation, and either an explanation of patentability of the claims over the document or an amendment to the claims and explanation of patentability based on the amended claims. Where an amendment is submitted with the Information Disclosure Statement, the amendment works as an admission that the claims were otherwise unpatentable without the amendment due to the cited documents. There would, however, be no fee.

Submission During Fourth Period

The Fourth Period exists if the Issue Fee has been paid but prior to the application issuing. In the Fourth Period, the applicant must request withdrawal of the application from issue, comply with 37 C.F.R. 1.97(e)(1), provide the materiality explanation, the non-cumulative explanation, and an amendment to the claims and explanation of patentability based on the amended claims. Where an amendment is submitted with the Information Disclosure Statement, the amendment works as an admission that the claims were otherwise unpatentable without the amendment due to the cited documents. There would be no fee in addition to the Petition fee, but there is also no option to argue for the patentability of the existing claims without amendment as there is prior to filing payment of the Issue Fee.

Table of Time Periods



Effect of Amendment on Prior Submissions

Lastly, the USPTO envisions that the applicant will be required to update the disclosure submissions with each amendment. Thus, whenever applicant makes an amendment affecting the scope of the claims, applicant would be required to reviewed each previously submitted explanation and/or identification, and update the explanation and/or identification. If the applicant does not make this update in the reply containing the amendment, the reply would be considered non-responsive.

Impact on Patent Practice

As the USPTO is proposing drastic changes to the Information Disclosure Statement process, the changes have been generally opposed by the patent community. Specifically, the patent community has questioned whether the proposed explanation requirements will unfairly burden the applicant with new requirements while potentially exposing the applicant to the charge of inequitable conduct by failing to properly identify or explain a document. As noted by the ABA in their comments, the "[c]ourt decisions on inequitable conduct are clear on two points: it should be the [USPTO], not the applicant, who should decide the relevance of a reference." Thus, should the applicant be mistaken as to what the Examiner would consider relevant, or submit an incorrect materiality or non-cumulative explanation, the applicant runs the risk of being charged with inequitable conduct for misleading the Examiner. The AIPLA warned that the proposed changes would actually deter an applicant from conducting prior art searches since the submission of the prior art documents

would be prohibitively expensive. A complete listing of all comments from the various other objecting commentators, including those from Foreign Associations, Companies, and Law Firms can be found at http://www.uspto.gov/web/offices/pac/dapp/opla/comments/ab95/ids.htm. In view of the number of objections, it is unclear whether the USPTO will go forward with these changes.

However, should this rule issue in its present form, the cost of filing an Information Disclosure Statement will escalate dramatically as practitioners will generally be required to analyze and re-analyze submissions throughout practice. In addition, practitioners and applicants will need to be wary of submitting too many documents (unless forwarded from an action of a foreign patent office) as submissions in excess of 20 will incur additional expense and risk through the various explanations required. Moreover, where a search is performed and results in submissions of more than 20 documents, the applicant should consider requesting Accelerated Examination as the materiality explanation needed for the Information Disclosure Statement is similar to the accelerated examination support document required when requesting Accelerated Examination. Thus, as with the remaining other rule packages proposed by the USPTO, passage of these changes to the Information Disclosure Statement processes will likely cause a dramatic shift in how documents are submitted, and when.

No Changes to Official Filing Fees (Yet)

Each year, the USPTO raises patent fees, to reflect changes in the Consumer Price Index (CPI) for the 2007 Fiscal Year, starting October 1, 2006. Accordingly, there was a potential adjustment, based on the CPI Urban Consumer rate, of approximately 3.5%. While normally a straightforward process, there is a problem caused by the Consolidated Appropriations Act (CAA), 2005 which revised certain patent fees for FY 2005, 2006 to their present state.

By way of review, it was the CAA that implemented the current fee structure in which the examination, search, and filing fees are separated, and the extra claims fees were dramatically increased. However, the CAA only authorized these fees for these fiscal years, and is due to expire on September 30, 2006. If no extension has passed, therefore, the fee structure would revert to the fee structure existing prior to the CAA (i.e., prior to the December 4, 2004 fees being implemented). Thus, the there may be potentially a dramatic lowering of certain fees and an elimination of other fees.

In order to account for these contingencies and to allow a CPI increase for each contingency, the USPTO proposed a change the fees in the Federal Register, Vol. 71, No. 107. As such, there are pending two Options of fees: Option 1 will apply if the extension to the CAA is passed; and Option 2 will apply if the revisions are not in effect for any FY 2007 period.

Given the confusion and as Congress has yet to extend the CAA, the USPTO is anticipating that the CAA will be extended but has declined to add the CPI to the fees for FY 2007. As noted on the USPTO website, the USPTO's current patent and trademark fee schedules "will continue in effect on October 1, 2006, and beyond." However, it is likely that the USPTO will try and obtain a right to increase. According to the USPTO, "USPTO customers should monitor this website for any updated information."

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Stein, McEwen & Bui, LLP is a full service intellectual property law firm with an emphasis on intellectual property creation and maximization. With a diverse clientele, including large multinational corporations, as well as small to midsize domestic and international companies, the attorneys of Stein, McEwen & Bui, LLP have worked with and counseled clients on the use of intellectual property as a tool for maximizing the protection of their research and development efforts.

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