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## Federal Circuit Revises *Comiskey* Decision in light of *Bilski*

In En Banc Ruling, Federal Circuit Orders New Decision to Address Whether Arbitration Methods and System Comply with Machine-or-Transformation Test

In *In re Comiskey*, 89 USPQ2d 1641 (Fed. Cir. 2009) (en banc), the Court of Appeals for the Federal Circuit, sitting *en banc*, issued an order allowing the merits panel to issue a revised opinion found at *In re Comiskey*, 89 USPQ2d 1655 (Fed. Cir. 2009) and vacating the prior opinion found at *In re Comiskey*, 499 F.3d 1365; 84 USPQ2d 1670 (Fed. Cir. 2007). The revised decision removes the portion of the opinion discussing claims 17 and 42, which were directed to a "system". Previously, the court had ruled that these claims satisfied the patentability test of 35 U.S.C. § 101, but were prima facie obvious under 35 U.S.C. § 103(a). The revised decision instead remands the case to the Board of Patent Appeals and Interferences to determine, in the first instance and in light of the Federal Circuit's recent decision in *In re Bilski*, 88 U.S.P.Q.2d 1385 (Fed. Cir. 2008) (en banc), whether these claims are patent-eligible under 35 U.S.C. § 101 but did not include the language arguably making such claims prima facie obvious.

By way of background, Stephen Comiskey filed an application for a method and system of mandatory arbitration. Claim 1, a method claim, includes steps of enrolling a person in a mandatory arbitration system, incorporating arbitration language into a unilateral contract, requiring the complainant to submit a request for arbitration, conducting and providing support for the arbitration, and determining an award or decision in the arbitration. Claims 17 and 42 recite a system having

modules to carry out these steps; and depending claims 15, 30, 44, and 58 depend from the system or method and recite that "access to the mandatory arbitration is established through the Internet, intranet, World Wide Web, software applications, telephone, television, cable, video [or radio], magnetic, electronic communication, or other communication means."

The Examiner rejected all claims as obvious under 35 U.S.C. § 103(a). Throughout the prosecution of the case, the Examiner did not reject the claims on any other grounds. Comiskey appealed the Examiner's rejection to the Board, and the Board affirmed the obviousness rejections. Comiskey appealed to the Federal Circuit.

The Federal Circuit did not reach the Board's obviousness determination. Rather, the Federal Circuit found that the claims were "barred at the threshold by [35 U.S.C.] § 101". *In re Comiskey*, 89 USPQ2d at 1659. The Federal Circuit held that Comiskey's method claims were not patentable subject matter under 35 U.S.C. § 101, and, in the revised portion of the opinion, remanded to the Board to determine the patentability of the system claims and the method claims explicitly reciting the use of a computer.

In reaching the decision regarding the method claims, the Federal Circuit first reviewed Supreme Court case law regarding algorithms and business methods. Citing a long line of Supreme Court precedent, the Federal Circuit concluded that claims reciting an abstract idea *per se* are not patentable. However, a claim directed to an abstract idea may be patentable if the claim recites a practical application of the abstract idea. Such a claim is statutory only if, as employed in the process, the idea is embodied in, operates on, transforms, or otherwise involves a class of statutory

subject matter. Thus, a mental process standing alone, untied to any other category of statutory subject matter, does not recite patentable subject matter.

The Federal Circuit then turned to Comiskey's method claims, finding that the exceptions to the "abstract idea" rule did not apply to these claims. The claims did not require a machine, as Comiskey conceded. Nor did the claims operate on or transform another class of statutory subject matter: they were not "a process of manufacture" or "a process for the alteration of a composition of matter". The claims merely described the steps of arbitration by a human arbitrator. As such, the claims recited only mental steps, and were therefore not patentable. The Court treated the system claims separately. Unlike the independent method claims, the system claims recited limitations that, in their broadest reasonable interpretation, could be interpreted as requiring the use of a machine. Claim 17 recited, among other limitations, "a registration module", "an arbitration module", and "a means for selecting an arbitrator from an arbitrator database." The system claims would thus be patentable, since they would be "embodied in" another class of statutory subject matter: machines. The Federal Circuit did not, however, rule on this point. Instead, the Federal Circuit remanded the case to the Board to determine, in the first instance, whether the system claims, as well as certain dependent method claims directed toward establishing access to arbitration over the Internet or other media, were patentable under 35 U.S.C. § 101.

The difference between the 2007 opinion and the revised 2009 opinion lies in the treatment of the system claims. In the original 2007 opinion, the Federal Circuit in fact ruled that the system claims recited patentable subject matter because, under the broadest reasonable interpretation, the claims could be directed to a machine. *In re Comiskey*, 84 U.S.P.Q.2d 1670, 1680 (Fed. Cir. 2007)(withdrawn). The Federal Circuit remanded these claims to the Board not to determine their patentability under 35 U.S.C. § 101, but to determine whether the mere addition of general purpose computers was obvious under 35 U.S.C. § 103(a). In the revised opinion, the Federal Circuit retreated from its prior holding of patentability, instead remanding the case to the Board to determine the § 101

issue in the first instance, without reaching the obviousness issue.

The Federal Circuit justified the limited remand to the Board with respect to the system claims in part because, had the Board relied on 35 U.S.C. § 101 to reject the new claims, Comiskey would have had an opportunity to amend the claims under 37 C.F.R. § 41.50(b). The different treatment of the system claims and the method claims is curious in that Comiskey would have had the same opportunity to amend the method claims had the Board rejected those under 35 U.S.C. § 101. The panel may have felt that the method claims presented a clear case of unpatentable subject matter, while the system claims did not. This position would be consistent with the Federal Circuit's subsequent *In re Bilski* decision. 88 U.S.P.Q.2d 1385 (Fed. Cir. 2008) (en banc). In *In re Bilski*, the Federal Circuit limited the issue to "what the term 'process' means", subsequently ruling the method claims at issue to be unpatentable subject matter because the method did not transform an article to a different state or thing or was not tied to a particular machine. *Id.* at 1389.

#### Significance for Patent Owners

The *Comiskey* decision joins the *Bilski* decision as part of the Federal Circuit's attempt to define the limits of patentable processes. The original 2007 decision pointed the way to *Bilski*, and the 2009 revised decision stands as an application of the *Bilski* principles. The Supreme Court, however, may soon have an opportunity to return to this area of the law for the first time since *Diamond v. Diehr*; *Bilski* recently filed a petition for certiorari with the Supreme Court. Unless the Supreme Court weighs in, the principles of *Bilski* and *Comiskey* remain the law: a method cannot be patentable unless the method transforms an article to a different state or thing, or is tied to a particular machine. Purely mental processes, such as Comiskey's arbitration method, are barred by 35 U.S.C. § 101. As such, applicants should ensure that methods, both in the specification and claims, specifically recite the processors and machines with which they interact in order to better assure compliance with the Federal Circuit's new machine or transformation test.

## Federal Circuit Finds Prior Licensing Activity Does Not Per Se Prevent Permanent Injunction

In *Acumed v. Stryker Corp.*, 551 F3d 1323; 89 USPQ2d 1612 (Fed. Cir. 2008), Stryker Corporation, Stryker Sales Corporation, Stryker Orthopedics, and Howmedica

Osteonic Corporation (collectively, "Stryker") appealed the District Court for the District of Oregon's grant of a permanent injunction in favor of Acumed. Acumed LLC

is the assignee of U.S. Patent 5,472,444 (“the ‘444 patent”), which is directed to a proximal humeral nail (“PHN”) used for treatment of fractures of the upper arm bone. Acumed’s PHN is sold under the name Polarus®.

Stryker sold a competing product: the T2 PHN. Acumed sued Stryker in April 2004 for infringement of the ‘444 patent based on the sales of the T2 PHN. Stryker was found to have willfully infringed the ‘444 patent and was granted a reasonable royalty and lost profits. Acumed moved for a permanent injunction. Upon a hearing in February 2006, the district court granted Acumed’s motion for a permanent injunction, applying the old rule that as long as there was not an exception circumstance to justify denial of injunctive relief, an injunction would issue in patent cases if infringement and validity were found. While Stryker’s appeal to this decision was pending, however, the Supreme Court decided *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 394 (2006) which held that the traditional four-factor test for permanent injunctions had to be applied in patent cases just as in other types of cases. On April 12, 2007, the Federal Circuit affirmed the finding of willful infringement, but vacated the permanent injunction and remanded the case to the district court for reconsideration of the four-factor test set forth by the Supreme Court in *eBay*. *Acumed LLC v. Stryker Corp.*, 483 F.3d 800, 811; 82 USPQ2d 1481 (Fed. Cir. 2007).

On remand, the district court considered the first two prongs of irreparable harm and lack of adequate remedy at law jointly. In finding that Acumed established these first two prongs, the district court noted the prior jury finding of lost profits and sales. It also credited three cases cited by Acumed in which permanent injunctions based on lost market share were granted. Secondly, the district court concluded that the balance of hardships favored Acumed because Acumed was much smaller than Stryker, and the Polarus® was Acumed’s flagship product. In contrast, the T2 PHN was less prominent in Stryker’s offerings, and also noting that Stryker’s decision to use an infringing product instead of a non-infringing substitute was a business decision “that did not tip the balance of hardships in Stryker’s favor.” Lastly, the district court concluded that public interest would not be disserved by a permanent injunction because there was not sufficient evidence of a public health issue resulting from the use of Polarus® products, and since there were sufficient non-infringing substitutes that physicians were not forced to use only the Polarus® products. The district court, thus, again entered Acumed’s motion for a permanent injunction.

Upon Stryker’s appeal, the Federal Circuit reviewed the district court’s decision for abuse of discretion.

#### ***Irreparable Harm and Lack of Adequate Remedy at Law***

Stryker argued that the district court erred in failing to give weight to Acumed’s previous licensing of the ‘444 patent to two of its competitors. Stryker asserted that Acumed’s willingness to grant licenses demonstrated that money damages in the form of reasonable royalty were an adequate remedy.

Acumed, on the other hand, argued that the district court had the discretion to decide how much weight to give to a patentee’s prior willingness to grant licenses. It also argued that the lost profits awarded by the jury meant that direct competition existed between Stryker and Acumed, thus showing that there was irreparable harm without adequate legal remedy.

The Federal Circuit found that the district court did not abuse its discretion in concluding that an injunction was necessary. Specifically, the Federal Circuit found that the district court weighed Acumed’s prior licenses in conjunction with several other factors to determine that money damages were adequate compensation only for Stryker’s past infringement and that there was no adequate remedy at law for Stryker’s future infringement. The Federal Circuit conceded that these prongs of the test made it a close case in view of the past license having been granted, but review under the standard of abuse of discretion compelled it to uphold the district court’s decision.

#### ***Balance of Hardships***

As to the third factor, Stryker argued that the district court failed to realize that enjoining the manufacture, use, sale, offer for sale, or importation of its PHN would create hardships for Stryker, its customers, and patients. Also, Stryker asserted that Acumed would actually benefit from receiving a royalty because many of Stryker’s customers would otherwise be inaccessible to Acumed.

In arguing that the district court properly weighted the evidence concerning the relative size of the companies and commercial effect that the injunction would have on the parties, Acumed pointed out that Stryker was the world’s largest orthopedic implant company, and its T2 PHN represented only a small portion of Stryker’s sales. In fact, Stryker had a non-infringing straight nail design that it could use instead of the T2 PHN. The Polarus®, on the other hand, was one of Acumed’s flagship products.

In agreeing with Acumed that the district court did not abuse its discretion, the Federal Circuit noted that the

balance of hardships only considers those of the plaintiff and the defendant. Thus, Stryker's argument about the effect on customers and patients was irrelevant under this prong. It was Stryker's conscious business decision not to offer its straight nail design in the United States, so an injunction against the T2 PHN would not prevent Stryker from participating in the humeral nail market.

### **Public Interest**

As to the last factor, Stryker argued that the district court abused its discretion in essentially placing the public interest burden on Stryker, and it asserted that the public interest was important in this case because the T2 PHN was demonstrably safer and superior to the Polarus.

The Federal Circuit held that Acumed had made a prima facie showing as to the effectiveness of the Polarus®. It conceded that this prong was a close call because of the medical testimony and evidence that the accused product was superior and safer than the Polarus®. However, the Federal Circuit noted that the district court was in the best position to review the evidence and noted that there was evidence of bias by the experts called upon by Stryker to establish the problems experienced while using Polarus®. Thus, the Federal Circuit found that the district court did not abuse its discretion in concluding that the public interest was not disserved by an injunction, but did note that such an

argument might be persuasive in the right situation involving public health.

As such, the Federal Circuit found that the test set forth by the Supreme Court in *eBay* had been satisfied, and the Federal Circuit therefore affirmed the decision of the District Court for the District of Oregon to enter a permanent injunction directed to Stryker's PHN.

### **Significance to Patent Licensors**

In *Acumed*, the Federal Circuit confirmed that the Supreme Court in *MercExchange* did not create a per se rule that any licensing creates a bar to obtaining an injunction. Instead, *Acumed* is a reminder that such per se rules are not allowed, and that a district court must still perform the same test in regards to granting an injunction in all situations. In the context of licensing, important factors that can arise include whether there is direct competition even with licensing of the patent in question. Moreover, in the context of the public interest factor, *Acumed* highlights evidence which is persuasive in allowing an injunction in the medical device field. Specifically, the court in *Acumed* found that, as opposed to being the only usable device, the infringer's decision to infringe was based upon a rational business decision to infringe instead of using an acceptable non-infringing substitute, and the conflicting evidence of acceptability is resolved by the district court.

## **BPAI Creates New Test for 35 U.S.C. §112**

Board Finds Indefiniteness exists where Claims are

Subject to Multiple Interpretations and Claims

Reciting Purely Functional Relationships are Invalid for a Lack of Enablement

In *Ex parte Kenichi Miyazaki*, 89 USPQ2d 1207 (BPAI 2008), the appellant, Kenichi Miyazaki (Miyazaki), sought the Board's review under 35 U.S.C. §134 of the rejection of pending claims 1-6, 13, 15-18, 26 and 31 for the Application No. 09/386,000. The claimed invention is directed to a large printer using a paper roll. The Examiner rejected the claims 1-6, 13 and 16-18 under 35 U.S.C. §112, second paragraph, as being indefinite with regard to the recited features of a height of the paper feeding unit and a sheet feeding area with reference to a user's height.

On appeal, the first issue related to whether the Appellant has shown that the Examiner erred in determining that claims 1-6, 13 and 16-18 are indefinite

under 35 U.S.C. § 112, second paragraph, when reciting the height features when read in view of the specification. The second issue related to the recitation of "sheet feeding area" and "sheet feeding area operable to feed..." With respect to claims 13, 15, 16, 18 and 26, the issue before the Board was whether the recitation of "sheet feeding area" is too indefinite for those skilled in the art to understand what is being claimed in light of the specification. With respect to claims 15 and 26, the issue before the Board was whether the recitation of "sheet feeding area operable to feed..." has no structural limitation and is a purely functional recitation, and thus is indefinite under 35 U.S.C. §112, first paragraph.

### **BPAI Develops New Rule for Indefiniteness**

The Board, in addressing the rejection of claims 1-6, 13, and 16-18, under 35 U.S.C. §112, second paragraph, held that the Federal Circuit's rule on the definiteness requirement, with respect to post-issuance patent infringement cases, is that "[o]nly claims 'not amenable to construction' or 'insolubly ambiguous' are indefinite"

*Datamize, LLC v. Plumtree Software, Inc.*, 417 F.3d 1342, 1347 (Fed. Cir. 2005). The Board explained that the Federal Circuit states that such a high standard for finding ambiguity results from the statutory presumption of patent validity. *Exxon Research & Eng'g Co. V. United States*, 265 F.3d 1371, 1375 (Fed. Cir. 2001).

However, the Board held that such a rule leads to a narrow interpretation of claims that is counter to the United States Patent and Trademark Office's standard for a broad reading for claim construction during prosecution. The Board stated that the broader claim construction standard used during prosecution is justified because an applicant may amend claims to more precisely define the invention during the prosecution. *In re Morris*, 127 F.3d 1048, 1056-57 (Fed. Cir. 1997). As such, the Board applied a new, lower standard for finding ambiguity. Rather than "requiring that the claims are insolubly ambiguous," the Board held that "if a claim is amenable to two or more plausible claim constructions, the USPTO is justified in requiring the applicant to more precisely define the metes and bounds of the claimed invention by holding the claim unpatentable under 35 U.S.C. §112, second paragraph, as indefinite." Additionally, the Board noted that while their reviewing court has not previously set forth a different standard of review for indefiniteness, with respect to pre-issuance claims versus post issuance claims, the Federal Circuit has stated that such difference may be necessary during prosecution of a patent. *Exxon Research & Eng'g Co. V. United States*, 265 F.3d 1371, 1384 (Fed. Cir. 2001). As such, the Board held that a new, lower standard was appropriate for purposes of 34 U.S.C. §112, second paragraph during prosecution.

In applying this standard, the Board noted that claim 1 doesn't state a positional relationship between the user and the printer. Specifically, it is not clear if the printer is on the ground or on a stand or if the user is standing on the ground or sitting in a chair. The Board further stated that with the many possible combinations of the relative positions between user and the printer in claim 1 "does not, in fact, impose a structural limitation on the height of the paper feeding unit of the claimed printer." Moreover, the Board found that the Applicant's specification does not impose a clear relational position upon the language of claim 1. As such, the Board declined "to read the preferred embodiment depicted in Figure 1 into the claim, because the language is broader than the embodiment, and the preferred embodiment implies that other embodiments may satisfy the claim." With the language of independent claims 3 and 4 being broader than claim 1, the Board stated that such claims do not impose a

limitation as to the structure and positional relationship and are indefinite as well.

With respect to claims 16 and 18, though such claims include language that the printer is "substantially at ground level," there is no clarity as to where the user is standing or positioned, and as such, are indefinite.

While claim 13 recited that both the user and the printer are "substantially at ground level," the Board found that it is unclear what "sheet feeding area" means in the claim and consequently agreed with the Examiner's rejection on new grounds set forth in the appeal decision. Under the new grounds for rejection, the Board found that claims 13, 15-18, 26 and 31 are rejected for being indefinite. Because there are two possible meanings for "sheet feeding area," the first being the space where the paper roll is loaded and a cover member above the space, with the cover member having a space where paper can be placed to be fed into the printer. The second ordinary meaning of "sheet feeding area" is the area of the printer that feeds paper into the printer, which the Board states to be the cover member in the present application. The Board stated that "neither the Specification, nor the claims, nor the ordinary meanings of the words provides any guidance as to what the Appellant intends to cover with this claim language," and consequently finds "sheet feeding area" to be ambiguous.

#### ***BPAI Applies Halliburton to Functional Claim Limitation***

With respect to claims 15, 26 and 31, the Board entered as a new ground for rejection that the recitation of "sheet feeding area operable to feed..." is a functional recitation and doesn't impose a limitation on structure. Under this new ground, the claims were invalid under 35 U.S.C. §112, first paragraph for violating the Halliburton rule, named after *Halliburton Oil Well Cementing Co. v. Walker*, 329 U.S. 1, 71 USPQ 175 (1946).

Specifically, the Board first found that, since the word "means" does not appear in the claim, the Board assumed that the Appellant did not intend to invoke 35 U.S.C. §112, sixth paragraph. Further, because the Appellant still has the opportunity to amend the claims to invoke 35 U.S.C. §112, sixth paragraph, the lack of structure in the claims does not rebut the presumption that 35 U.S.C. §112, sixth paragraph, does not apply, and therefore, the Board held that claims 15 and 26 do not require claim interpretation under 35 U.S.C. §112, sixth paragraph. As a result, the Board held that the claim element "sheet feeding area operable to feed..." is purely functional.

The Board voiced two USPTO concerns regarding purely functional claim elements that the Applicant does not limit via 35 U.S.C. §112, sixth paragraph. First, the Board stated that the USPTO is concerned that such claims are indefinite under 35 U.S.C. §112, first paragraph. Second, the Board stated that the USPTO is concerned that such “unlimited purely functional claiming may reasonably be construed to encompass any and all structures for performing the recited function, including those which are not what the applicant invented.” For these reasons, the Board held that the Supreme Court’s *Halliburton* decision is applicable to claims reciting purely functional claim language when the claims are unlimited by either (1) the application of 35 U.S.C. §112, sixth paragraph, or (2) the additional recitation of a structure.

Moreover, as the claims are not means plus function claims and otherwise lacked structure, the Board found them invalid under 35 U.S.C. §112, first paragraph, by finding that there is a prohibition on “purely functional” claim language having no structure limitation. The Board held that the Supreme Court had previously found purely functional limitations to be invalid under 35 U.S.C. §112, first paragraph. *Halliburton Oil Well Cementing Co. v. Walker*, 329 U.S. 1, 71 USPQ 175 (1946). It was due to this Halliburton rule that Congress created 35 U.S.C. §112, sixth paragraph to allow functional claiming. Thus, the Board found that the Halliburton rule was still in force for claims not invoking 35 U.S.C. §112, sixth paragraph. Since claims 15 and 26 did not recite structure and were purely functional in nature, claims 15 and 16 violated the Halliburton rule

and were unpatentable under 35 U.S.C. §112, first paragraph, for lack of enabling disclosure commensurate with the scope of the claims.

In summary, the Board affirmed the Examiner’s rejection of claims 1-6, 13 and 16-18 and entered new ground for the rejection of claims 13, 15-18, 26 and 31.

#### Significance to Patent Owners

In *Ex parte Kenichi Miyazaki*, BPAI created new test for 35 U.S.C. §112 to require applicants to ensure language not reasonably capable of dual meanings. While nominally useful in regards to helping clarify the claims, the decision, if followed, would encourage Examiners to find multiple unreasonable interpretations of claims, and force the applicants to narrow their claims or prove that only one interpretation is reasonable. Moreover, the Board did not address how both interpretations at issue were “reasonable” as would be understood by one of ordinary skill in the art, and appeared solely to rely on the specification and the claims without establishing the skill or knowledge of those in the art. Additionally, in attacking functional limitations, the Board is signaling that it will attempt to reign in broad claiming of the type normally exemplified by functional limitations. However, the Board does not appear to address the obvious reality that such limitations, if truly broad, will read on prior art and will be narrowed through ordinary prosecution. Thus, the new rule applied by the Board, especially outside of a prior art rejection, will encourage piecemeal examination without improving the quality of the resulting patent.

## Ninth Circuit Finds Trade Dress Infringement to be a form of Advertising Injury Covered by Insurance

However, the Insured’s Arguments Estopped it from Denying Reimbursement to the Insurer for Damages Stemming from the Advertising Injury

In *United National Insurance Co. v. Spectrum Worldwide, Inc.*, 555 F3d 772; 89 USPQ2d 1618 (9th Cir. 2009), Spectrum was hired by Sunset Health Products, Inc. in December 1997 to advertise and distribute Sunset’s “Hollywood 48-Hour Miracle Diet” drink (“Miracle Diet”). Soon after in 1998, the CEO and CFO of Spectrum formed Celebrity Products Direct, Inc., which began to market and sell a comparable product, “The Original Hollywood Celebrity Diet” drink (“Celebrity Diet”). Spectrum then terminated its contract with Sunset and began marketing Celebrity Diet.

Sunset’s label had a blue/purple background and featured the word “Hollywood,” the phrase “Lose Up To 10 lbs. in 48 Hours!,” and pictures of palm trees, gold stars, and Hollywood-style searchlights. Spectrum’s original label in 1998 featured similar phrasing on a black background with a gold star. Then, Spectrum changed Celebrity Diet’s label such that by 2001, the label was a purple/blue background with Hollywood-style searchlights, and the font and style of the word “Hollywood” looked more like the Hollywood Hills sign.

After demanding twice that Spectrum cease infringing on its Miracle Diet trademark, Sunset filed a trade dress infringement claim against Spectrum in October 2001. Sunset alleged that Spectrum deliberately packaged and labeled Celebrity Diet so similarly to Miracle Diet that it confused consumers and damaged Sunset’s reputation.

Sunset applied for a temporary restraining order, and it asked the District Judge to compare Sunset's 1998 label to Spectrum's 1998 and 2001 labels to determine whether Spectrum's 2001 label constituted an immediate harm to Sunset.

The District Judge granted the temporary restraining order. In the subsequent preliminary injunction hearing, however, Spectrum's argument was that it had changed its 1998 label in 1999 and Sunset was aware of the change at the time. Moreover, its 1999 label was so similar to its 2001 label that Sunset was not in danger of experiencing immediate harm since Sunset had delayed three years in bringing the action in the first place. Accepting Spectrum's position, the judge denied Sunset's preliminary injunction action. Spectrum and Sunset eventually settled on the trade-dress infringement claim.

In 2001, United issued Spectrum a one million dollar excess third party liability policy that, in part, indemnified Spectrum for damages resulting from an advertising injury. The policy defined an advertising injury to be an injury arising out of "[i]nfringement of copyright, title or slogan." The policy however did not apply to an "advertising injury...arising out of oral or written publication of material whose first publication took place before the beginning of the policy period."

Spectrum's insurance provider, United, contributed \$420,000 to the settlement amount under this policy. In 2005, United filed a complaint seeking reimbursement of its settlement contribution then moved for summary judgment arguing that its first publication exclusion eliminated its indemnification obligations. Upon a request for reconsideration of an initial denial, the district court granted United's motion for summary judgment, holding that Spectrum's 1999 label formed the substance of Sunset's advertising injury and that, therefore, the first publication exclusion eliminated United's liability. The district court entered a judgment against Spectrum Worldwide and its officers for the amount that United had contributed to the settlement. The district court denied Spectrum's motion for reconsideration.

On appeal, Spectrum argued that the United Policy's first publication exclusion did not apply to Sunset's infringement claim because (1) first publication exclusions do not apply to infringement actions in California and (2) even if the clause applied to infringement actions, summary judgment was not proper to determine whether Spectrum first published infringing material before the United Policy took effect.

In interpreting insurance policy language under California law, the Ninth Circuit noted that one must first look to the language itself to ascertain its plain meaning. From this reading, one should be able to infer the parties' mutual intention at the time of contract formation.

Applying this standard, the Ninth Circuit did not agree with Spectrum's argument that the language was ambiguous. It instead found that the United Policy's first publication clause was clear and explicit. Specifically, the plain reading of the first publication exclusion and the relevant advertising injury definition together indicated that the parties intended to exclude from coverage any infringement injury that arose from an oral or written publication or material first published before the policy became effective.

After finding that United's first publication exclusion clearly applied to trade dress infringement claims, the court then considered whether the exclusion applied to Sunset's infringement claim. Specifically, the Ninth Circuit looked to whether judicial estoppel applied in the instant case.

Judicial estoppel bars inconsistent positions taken in the same litigation and bars litigants from making incompatible statements in different cases. The purpose of the doctrine is to prevent litigants from taking one position, gaining advantage from that position, then seeking a second advantage by seeking an incompatible position. The Ninth Circuit looked to *New Hampshire v. Maine* to determine whether judicial estoppel applied. 532 U.S. 742 (2001). Following the test, the Ninth Circuit held that Spectrum's current position was clearly inconsistent with its earlier position.

In the 2001 preliminary injunction hearing, Spectrum's response to Sunset's allegations about its recent label change was that Spectrum had been using the label elements of which Sunset complained since 1999. Moreover, any change thereafter was simply shifting the 1999 label elements, thereby establishing that there was no immediate harm for purposes of a preliminary injunction. Spectrum's argument in this case, however, was that it was the 2001 label, not the 1999 version that resulted in the Sunset action.

Also, Spectrum succeeded in persuading the district court to accept the earlier position, so accepting Spectrum's current argument would create "the perception that either the first or the second court was misled." Spectrum's 2001 arguments helped convince the District Judge that Sunset did not experience new or immediate harm and that an injunction was inappropriate. Therefore, if the Ninth Circuit were to

accept Spectrum's new argument that the 2001 label was the basis for Sunset's infringement claim, it could create the perception that Spectrum misled either the Ninth Circuit or the District Judge.

Last, if not estopped, Spectrum would derive an unfair advantage. Spectrum benefited from its 2001 arguments by establishing that the harm had arisen prior to the 2001 label. So if Spectrum were allowed to now change its arguments, it would be possible for Spectrum to prevail on the same position it discredited when attempting to avoid preliminary injunction. The result would be unfair to both Sunset and United.

On this basis, the Ninth Circuit affirmed the district court's determination that United's Policy applied to trade dress infringement actions. Also, the Ninth Circuit held that summary judgment was proper to determine the date of first publication in this case because Spectrum was judicially estopped from presenting and prevailing on inconsistent arguments before the district

courts. Lastly, the Ninth Circuit held that the district court did not abuse its discretion when it held Spectrum's officers jointly and severally liable for repayment of United's contribution.

#### Significance to Accused Infringers

While advertising injury coverage is often included in commercial general liability insurance, what constitutes a coverable injury depends on the specific language of the policy. Given the costs associated with defending against charges of trademark infringement, it is well worth reviewing such coverage to determine whether those costs can be reimbursed as an advertising injury. However, as was the case in *United National Insurance Co. v. Spectrum Worldwide, Inc.*, any claims for reimbursement must also be consistent with the defenses asserted in order to prevent the effects of judicial estoppel from preventing coverage.

## Court of Federal Claims Indicates Contractor Liable Where Government is Immune

Federal Claims Allows Transfer To Allow Patent Infringement Suit Against Contractor Where Government Immune from Infringement

In *Zoltek Corp. v. United States*, No. 96-166 C (Fed.Cl. Jan. 23, 2009), Zoltek Corporation owns Patent No. Re. 34,162 ("the '162 patent). Originally, Zoltek asserted the '162 patent against the Federal Government under 28 U.S.C. § 1498(a). 28 U.S.C. §1498(a) sets forth a remedy for patentees whose patents are "used or manufactured" by government contractors acting with the "authorization or consent" of the Government. Zoltek has alleged that the Government caused the manufacture of carbon fiber products according to processes covered by the '162 patent and that these products were incorporated into Lockheed Martin Corporation's F-22 Fighter Planes.

In 2001, the Government moved for partial summary judgment, raising 28 U.S.C. § 1498(c) as an affirmative defense to liability under 28 U.S.C. § 1498(a). Specifically, the Government asserted that 28 U.S.C. §1498(c) provides that "[t]he provisions of this section shall not apply to any claim arising in a foreign country," and therefore this provision provides an exception to 28 U.S.C. § 1498(a). The Government next asserted that Zoltek's F-22 claim arose in a foreign country within the meaning of 28 U.S.C. § 1498(c)

because the accused processes included the manufacture of fibers in Japan, and therefore 28 U.S.C. § 1498(c) nullified the possibility for liability under § 1498(a).

To determine when a claim arises in a foreign country, the Court of Federal Claims looked to the Patent Act, which requires that the infringing act be performed within the United States. Zoltek argued that the remedies provided by 35 U.S.C. § 271(g) for the importation, sale, offer to sell, or use of a product made by a process patented in the United States would apply in this case, and that this type of infringement was within the scope of the authorization and consent allowed under 28 U.S.C. § 1498. Thus, despite 28 U.S.C. § 1498(c), Zoltek would still have a cause of action against the Government even though the patented process was not practiced entirely in the United States. The Court of Federal Claims, however, held that 28 U.S.C. § 1498, by its terms, does not provide for such a remedy, and, thus, Zoltek could not bring such a claim against the Government. The Court stated that, "[b]ecause nothing in the legislative history indicates that Congress intended for the meaning and effect of section 1498 to change in congruence with changes in 35 U.S.C. § 271, the Court is constrained to hold that section 1498 does not apply to all forms of direct infringement as currently defined in 35 U.S.C. § 271."

On appeal, the Federal Circuit affirmed the Court of Federal Claims' judgment, but it used different reasoning. The Federal Circuit held that "direct infringement under section 271(a) is a necessary predicate for government liability under section 1498" and that "a process cannot be used 'within' the United States as required by section 271(a) unless each of the steps is performed within this country."

On remand, Zoltek moved to transfer in order to directly bring an action against the contractor performing the work under 35 U.S.C. §271(g). The transfer statute under which Zoltek has brought its motion for transfer, 28 U.S.C. § 1631, permits transfer of a civil action to another jurisdiction when: (1) the transferor court lacks jurisdiction, (2) the transferee court would have had jurisdiction at the time the original case was filed, and (3) transfer would serve the interests of justice. As discussed above, the Federal Circuit had already concluded that the Court of Federal Claims lacked jurisdiction to hear Zoltek's claims against the Government regarding the F-22, so only the second and third requirements of 28 U.S.C. § 1631 remained to be discussed.

As to the second requirement, Zoltek argued that because 28 U.S.C. § 1498(a) does not apply, there was no question that the action could have originally been brought in the Northern District of Georgia, where Lockheed conducts a substantial amount of business and does a substantial amount of building for the F-22. In first looking to the plain language of 28 U.S.C. § 1498, the Court determined that there is no reason why a government contractor cannot be subject to suit under 35 U.S.C. § 271 when 28 U.S.C. § 1498(c) has been triggered. Next, because 28 U.S.C. §1498(a) is not a jurisdictional bar and does not procedurally prevent suit against Lockheed, the Court discussed whether the Northern District of Georgia could have heard any of Zoltek's claims when Zoltek filed its original complaint. The problem lay in the fact that Zoltek had never expressly included a claim for infringement under 35 U.S.C. § 271 against Lockheed in its complaint. The Court refused to accept Zoltek's promise that it would amend its complaint once the F-22 claim is transferred. It was not enough for Zoltek to point to factual allegations in the complaint that could support a transferable claim because 28 U.S.C. § 1631 requires a more certain finding that the transferee court would have had subject matter jurisdiction over the claim to be transferred, *as it is alleged*. For a transfer to take place, Zoltek's complaint must allege an infringement claim against Lockheed of a type which is not precluded by 28 U.S.C. § 1498(a). The Court of Federal Claims specifically noted that if properly alleged under 35

U.S.C. §271(g), the Northern District of Georgia could have heard Zoltek's claim of unauthorized importation or use in the United States of a sheet product made from partially carbonized fibers if it were alleged against Lockheed.

As to the third requirement, Zoltek argued that it is entitled to its day in court, that Lockheed was made aware of this litigation through participation in discovery for the last decade, and that transferring the F-22 portion of the case, as opposed to requiring Zoltek to file an entirely new suit, would potentially avoid a statute of limitations bar. The Government, on the other hand, argued that transfer would not serve the interests of justice. Specifically, the Government argued that transfer would be futile since the Northern District of Georgia would not have had jurisdiction over the F-22 claim because Lockheed was acting with the Government's "authorization or consent." The Government's additional argument against transfer is that it would be unfair to Lockheed because Zoltek's original complaint against the Government under 28 U.S.C. § 1498 could not give Lockheed fair notice that it might be a defendant eleven years later on a claim of infringement under 35 U.S.C. § 271.

The Court of Federal Claims noted that, previously, the Federal Circuit in *Texas Peanut Farmers v. United States*, 409 F.3d 1370, 1374 (Fed. Cir. 2005) held that if a plaintiff will be time-barred by the statute of limitations if his case is dismissed and thus has to be filed anew in the right court, that is a compelling reason for transfer. The Court of Federal Claims was satisfied based on evidence that at least some importations of the alleged infringing products occurred more than six years ago and would, thus, be time-barred. As to the Government's first futility argument, the Court reemphasized that 28 U.S.C. § 1498(a) does not prevent Zoltek from bringing its claim against a private party in a district court. Also, the Court of Federal Claims agreed with Zoltek that although being brought into an eleven year old suit without any prior warning seems unfair, Lockheed was aware that its product is at issue in this litigation. Lastly, the interests of justice favored transfer because Zoltek was stuck in the position as the unfortunate first plaintiff to encounter the legislative gap between the definition of infringement under 28 U.S.C. § 1498 and the definition of infringement under 35 U.S.C. § 271. Based on the law existing at the time it filed its complaint, Zoltek reasonably and diligently attempted to have its claim heard in what it thought was the proper court, and the Court decided that Zoltek is entitled to have its day in some court.

By operation of 28 U.S.C. § 1498(c), the 28 U.S.C. §1498(a) contractor immunity from suit for patent infringement when a patented invention is used or manufactured for the federal government has no effect for infringement under 35 U.S.C. § 271(g). Also, the Northern District of Georgia would have had jurisdiction over a patent infringement suit brought by Zoltek against Lockheed, and justice would favor transfer in these circumstances. Although Zoltek's complaint does not recite any claim over which the Northern District of Georgia would have had jurisdiction when the present action was filed, the Court of Federal Claims recognized that due to the unique circumstances of Zoltek's claim and the issues of first impression, there would have been no reason for Zoltek to have thought to present its original claim as one against Lockheed. The Court also noted that courts do not seem to have been particularly concerned with the requirement of the second prong of the transfer statute, and in the single case it found in which a district court appeared to be concerned by this requirement, it had allowed to the complaint to be amended before transfer. Therefore, the Court of Federal Claims granted Zoltek leave to amend its complaint to assert a claim against Lockheed under 35 U.S.C. § 271. Upon satisfaction that Zoltek has properly framed its F-22 claim, the Court will grant Zoltek's

present motion and enter an order transferring Zoltek's claim to the Northern District of Georgia.

### Significance to Patent Owners

In allowing a transfer of venue without requiring a refiling of a new infringement case, the Court of Federal Claims provides a hint as to how a District Court is likely to view a government contractor's liability for patent infringement where the contractor is working without the Government's authorization and consent. Specifically, where a patent owner determines that a contractor is infringing under a government contract, it is reasonable to only file an action against the Government under 28 U.S.C. §1498 and the patent owner should not be prejudiced if a concurrent suit is not brought in district court. Moreover, the Court broadly hinted that, without 28 U.S.C. §1498 providing a shield against infringement, the government contractor is likely to be held liable for any infringement as would any commercial contractor. However, it remains to be seen what liability will attach, and whether continued infringing use under a government contract could form grounds for willful infringement or even whether an injunction can even be granted in light of the likely substantial public interest in allowing the government to acquire the contracted-for good.

## Federal Circuit Limits BPAI's Ability To Group Claims for a Common Ground of Rejection

In *Hyatt v. Dudas*, 551 F3d 1307; 89 USPQ2d 1465 (Fed. Cir. 2008), the Federal Circuit affirms the district court's vacating of the Board of Patent Appeals and Interferences' (BPAI) rejection of all claims in twelve of Gilbert P. Hyatt's patent applications. In particular, the Federal Circuit held that a "ground of rejection," as stipulated in 37 C.F.R. §1.192(c)(7), includes both the statutory section under which a claim is rejected, and the reason why the claim does not meet that statutory requirement.

Between April and June of 1995, Hyatt filed the twelve patent applications as part of a series of continuation applications. By the time of appeal, the twelve applications included approximately 2,400 claims. The PTO examiner rejected all of the claims on various different grounds, including obviousness and lack of enablement. However, the most common ground for rejection was that the claims lacked written description support under 35 U.S.C. §112, first paragraph. Hyatt appealed the examiner's rejections to the BPAI, discussing only twenty-one of his claims in the "Summary of the Invention" sections of his appeal

briefs. Accordingly, the BPAI selected these twenty-one claims as representative claims, affirmed the examiner's rejections, and affirmed the rejections of the non-representative claims.

On appeal to the district court, Hyatt argued that the BPAI improperly selected the twenty-one claims as representative of the remaining claims. The PTO, in turn, argued that the claims were properly grouped because each group was rejected under the same statutory provision (35 U.S.C. §112, first paragraph). The district court agreed with Hyatt, holding that the BPAI failed to comply with 37 C.F.R. §1.192(c)(7) when selecting the representative claims. Specifically, the BPAI "should not have grouped claims that have been rejected for lack of a written description unless those claims share a limitation that has been found to have not been disclosed by the specification."

The PTO raises two issues on appeal to the Federal Circuit. The first issue relates to the meaning of "ground of rejection" in 37 C.F.R. §1.192(c)(7), and whether the BPAI improperly selected claims to be

representative of groups of claims that were rejected on different grounds. The second issue is whether the district court's remand requires the BPAI to consider arguments that Hyatt waived by not raising them on appeal before the BPAI.

As to the first issue, 37 C.F.R. §1.192(c)(7) states:

Grouping of claims. For each ground of rejection which appellant contests and which applies to a group of two or more claims, the Board shall select a single claim from the group and shall decide the appeal as to the ground of rejection on the basis of that claim alone unless a statement is included that the claims of the group do not stand or fall together and, in the argument under paragraph (c)(8) of this section, appellant explains why the claims of the group are believed to be separately patentable. Merely pointing out differences in what the claims cover is not an argument as to why the claims are separately patentable.

The PTO argues that a "ground of rejection" is the statutory section under which a claim is rejected. In the present case, then, the ground of rejection is the claims' failure to satisfy 35 U.S.C. §112, first paragraph, regardless of whether the limitation in the representative claim that lacks written description support is also present in the other claims of the represented group. Conversely, Hyatt argues that the "ground of rejection" includes both the statutory section and the reason why the claim failed to meet that statutory requirement.

The Federal Circuit noted that, in 2002, the Federal Circuit held in *In re McDaniel*, that 37 C.F.R. §1.192(c)(7) "operates to relieve the [BPAI] from having to review... the myriad of distinctions that might exist among claims, where those distinctions are, in and of themselves, of no patentable consequence to a rejected claim." 293 F.3d 1379, 1383 (Fed. Cir. 2002). Accordingly, the Federal Circuit cited *In re McDaniel* in reasoning that a group of claims rejected on the same

ground is one in which the differences between the claims is "of no patentable consequence to a contested rejection." Thus, the Federal Circuit concluded that the PTO's interpretation of 37 C.F.R. §1.192(c)(7) is erroneous, and that a group of claims rejected under 35 U.S.C. §112, first paragraph do not share a common ground of rejection unless the claims have a common limitation that lacks written description support.

As to the second issue, the PTO argues that if its interpretation of 37 C.F.R. §1.192(c)(7) is rejected, then it will be required, on remand, to consider grounds of rejection that Hyatt failed to contest in his initial appeals to the BPAI. The Federal Circuit, again, disagreed with the PTO, and affirmed that the rules of waiver (37 C.F.R. §1.192(a)) exempt the BPAI from considering grounds of rejection that were not contested on initial appeal. However, while an Applicant can waive appeal of a ground of rejection, the Applicant cannot waive the BPAI's obligation to select and consider at least one representative claim for each properly defined ground of rejection appealed.

Thus, in the present case, the BPAI must consider all grounds of rejection challenged by Hyatt without selecting a claim to be representative of a group that were rejected on different grounds. However, the BPAI is not obligated to consider any grounds of rejection not challenged by Hyatt in his initial appeals, unless such grounds become relevant on remand.

### Significance for Patent Applicants

While seemingly a narrow holding, the lesson of *Hyatt* is important to the extent that it demonstrates that the USPTO must reasonably comply with its rules. Thus, even after the Federal Circuit's holding in *Tafas* by which the Federal Circuit held that the USPTO has broad rulemaking authority for such procedural rules, the USPTO's interpretations must still be within the bounds of reason.

## Feature Comment: Status of New Rules Affecting Continuation Practice, Claims Practice, and Information Disclosure Statement Practice

By James G. McEwen<sup>1</sup>

### Background

Under prior rules, an applicant was entitled to file as many continuation applications as needed to ensure that the invention was properly claimed and to prevent inadvertently narrow limitations from precluding literal

<sup>1</sup> The opinions in this article do not represent the official positions of Stein McEwen, LLP.

infringement. The only limitation on the number of continuations was generally set by matters of equity or where an applicant was not attempting to advance prosecution by amending the claims. The applicant could also attempt to ensure such coverage using a single application which included as many claims as needed. The limitation on the number of claims in a single application was set by the Examiner, who could issue a restriction if the number of claims being examined was deemed too burdensome for a single application.

Likewise, applicants were strongly encouraged, through court decisions, to submit, in an Information Disclosure Statement, any information which could be deemed material. Due to the influence of cases such as *McKesson Information Solutions v. Bridge Medical, Inc.*, 487 F.3d 897; 82 USPQ2d 1865 (Fed. Cir. 2007) and *Nilssen, et al. v. Osram Sylvania, Inc., et al.*, 504 F.3d 1223; 84 USPQ2d 1811 (Fed. Cir. 2007), the standard for when documents and arguments need to be presented has been greatly expanded. As such, practitioners have generally been highly inclusive in determining what documents need to be submitted in order to ensure that, during enforcement proceedings, a court does not find the resulting patent unenforceable for failure to submit material prior art.

In an effort to reduce the number of outstanding applications, application pendency, and the claims for each application, the United States Patent and Trademark Office (USPTO) attempted to institute a new rule package to be effective on November 1, 2007. As previously reported in Volume 3, Issue 3, of the Stein McEwen Newsletter, the new rule package was designed to change existing patent prosecution strategies by effectively limiting the number of continuations and claims.

Similarly, on July 10, 2006, the USPTO proposed changing the Information Disclosure Statement requirements in order to reduce the burden on the Examiner due to large submissions. As previously reported in Volume 2, Issue 3 of the Stein McEwen Newsletter, the USPTO proposed these rule changes 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.

## Status of Changes to Claim and Continuation Rules

As previously reported in Volume 3, Issue 4 of the Stein McEwen Newsletter, in order to prevent the new continuation and claims rules from becoming effective, a suit was brought under the Administrative Procedures Act to enjoin their enactment. The suit was brought in the Eastern District of Virginia first by an individual inventor, Triantafyllos Tafas. This suit was later joined by Glaxo Smithkline. On October 31, 2007, the District Court issued a preliminary injunction preventing the USPTO from implementing the rules as planned on November 1, 2007. While not permanent, the preliminary injunction indicates that the rules may be reversed in at least certain areas.

Recently, the Federal Circuit reversed the District Court, finding that the USPTO the rules were within the powers delegated to the USPTO under 35 U.S.C. §2(b). Specifically, in *Tafas et al. v. Dudas*, Civ. Case No. 2008-1352 (Fed. Cir. March 20, 2009), the Federal Circuit found that, while the USPTO cannot enact substantive rules which preclude a change in substantive standards by which an applicant's application is judged, it can enact procedural rules which do not "foreclose effective opportunity to make one's case on the merits." Quoting *JEM Broad. Co. v. FCC*, 22 F.3d 320, 327-28 (D.C. Cir. 1994) quoting *Lamoille Valley R.R. Co. v. Interstate Commerce Comm'n*, 711 F.2d 295, 328 (D.C. Cir. 1983)). By this standard, the Federal Circuit found that the new continuation rules do not effectively preclude all opportunities for filing continuations and RCEs since applicants can still comply with the procedures set forth in proposed Rules 78 and 114 to ensure that additional continuations and RCEs are filed. Moreover, the filing of an ESD is similarly procedural such that proposed Rules 75 and 265 provide a remedy to allow more than 25 patentably indistinct claims in a family of applications.

While the Federal Circuit did note that the USPTO had threatened to make the rules so draconian as to effectively preclude an applicant's ability to claim an invention or otherwise obtain coverage using RCEs and continuation applications in excess of the proposed rule limits, the Federal Circuit held that such interpretations are purely speculative. However, should such interpretations come to realization, applicants would be entitled to have such interpretations reviewed under the APA.

Next, even though the Federal Circuit found that the USPTO had the power to enact these sorts of rules, the Federal Circuit noted that such rules must not be arbitrary and capricious or contrary to law. On review

under this standard, the Federal Circuit found that the continuation rules in proposed Rule 78 were contrary to law. Specifically, the Federal Circuit found that 35 U.S.C. §120 allows for unlimited continuation applications, and the proposed Rule 78 would have added a substantive requirement not required by statute. As such, the Federal Circuit found that proposed Rule 78 was contrary to law, and cannot be enacted in its present form.

In contrast, the Federal Circuit found that proposed Rule 114, which required a specific petition for an additional RCE per patent family, was not in conflict with 35 U.S.C. §132. Specifically, while 35 U.S.C. §132 created RCEs, it does not unambiguously require the USPTO to grant unlimited RCEs. Therefore, the USPTO's interpretation of the statute for the purposes of limiting RCEs in proposed Rule 114 was entitled to deference and is thus not in conflict with the law.

Similarly, the Federal Circuit also held that, while 35 U.S.C. §112 ¶ 2 does allow an applicant to claim unlimited numbers of claims, the proposed Rules 75 and 265 do not actually limit the numbers of claims an applicant can have. Instead, the proposed Rules 75 and 265 merely trigger an additional submission of information via an ESD, and therefore do not provide a limit on the number of claims per se.

As such, the Federal Circuit held that only the continuation rules were contrary to the Patent Act, and the remaining proposed rules were within the rule-making authority of the USPTO. However, for purposes of remand, the Federal Circuit noted that the decision did not address many issues remaining and directed that the District Court further evaluate the rules for the following issues:

whether any of the Final Rules, either on their face or as applied in any specific circumstances, are arbitrary and capricious; whether any of the Final Rules conflict with the Patent Act in ways not specifically addressed in this opinion; whether all USPTO rulemaking is subject to notice and comment rulemaking under 5 U.S.C. § 553; whether any of the Final Rules are impermissibly vague; and whether the Final Rules are impermissibly retroactive.

As such, the Federal Circuit acknowledged that merely indicating that the rules are procedural in nature does not represent an end of the discussion, but merely a beginning of the more substantive conflicts between the APA and the remaining proposed Rules. Since there is ongoing litigation over whether the remaining rules are compliant with the APA, it remains unclear as to when such remaining rules on the RCEs and claim number

limitations will be effective, and in what form. For instance, it is conceivable that only certain remaining rules will be enjoined, while others remain compliant with the Administrative Procedures Act. As a result, any implementation will be subject to the District Court's final decision on whether to permanently enjoin the rules. As such, applicants cannot anticipate, with reasonable certainty, which portions of the rules will be implemented (if any) and when.

## Status of Changes to Information Disclosure

### Statement Rules

Since the close of the comment period for the information disclosure statement rule changes, the rules have been submitted to the Office of Management and Budget (OMB) for final review, which is required by Executive Order 12866 for all new rules. While an effort was made to have the rules revised or rejected while under review at the OMB, OMB approved the information disclosure statement rule changes on December 12, 2007. However, in view of the Federal Circuit's opinion in *Tafas*, it is uncertain as to when or if these rules would be issued, and in what form.

### Conclusion

As the final form of each rule change is uncertain, any suggestions in order to address the rule changes would be speculative at best. However, it would seem advisable to assume, as a worst case scenario, that some form of the claims or RCEs rule changes will be implemented. Thus, it would be generally advisable to file any new RCEs or applications with large numbers of claims prior to the final decision by the Eastern District of Virginia. Moreover, in view of the impending changes to the rules for information disclosure statements and to the extent possible, any such information disclosure statements should be filed in an expedited fashion in case the final rules otherwise require the detailed explanations and updating originally proposed by the USPTO. The changes to the information disclosure statement, RCE and claims practices represent one of the largest attempts to change patent prosecution practice in the past ten years. These changes present specific challenges to the way in which patents have been prosecuted in the past, and the interlocking features of the potential rules make it especially challenging to formulate an effective strategy without substantial study of the policies and the language of the rules. However, once such a review is done and after the final versions of the rules are implemented, it is apparent that applicants can still protect their inventions through aggressive combinations of

restrictions, petitions, appeals, and possible accelerated examinations. Thus, while the changes are substantial, applicants still have the ability to strategically protect their patentable inventions by adapting to the rule

changes and taking advantage of the potential workarounds reported in previous articles of the Stein McEwen Newsletter or to be developed.

## Report On the Patent Reform Act of 2009

By Fadi N. Kiblawi<sup>2</sup>

### **Introduction**

Though various forms of patent reform legislation have been unsuccessfully introduced in Congress over the past five years, Democratic and Republican leaders have recently presented a new Patent Reform Act of 2009. The Senate Bill (S.515) and the House bill (H.R.1260) respectively introduced by Senators Leahy (D-VT) and Hatch (R-UT) and Representatives Conyers (D-MI) and Smith (R-TX), include many of the same provisions as years past (2005 and 2007), including the controversial limitations on damages for infringement.<sup>3</sup> However, some less divisive provisions are omitted in the 2009 version, including stipulations on inequitable conduct and requirements that all applications be published in 18 months and prior art searches be conducted by Applicants (i.e., Applicant Quality Submissions). The following is an overview of the more serious changes proposed in the 2009 Act.

### **First Inventor to File**

Section 3 of the House bill and Section 2 of the Senate bill propose a transition from a "first-to-invent" to a "first-to-file" system, whereby invention is as of the date of filing, and not the date of actual invention. Accordingly, any third-party publication, issued patents, or published applications prior to the date of filing are valid prior art, irrespective of the actual date of invention. Similarly, any published application or issued patent filed before the date of filing are also valid prior art, irrespective of the actual date of invention.

### **Damages for Infringement**

As related to the 2007 bills, which differed in this respect, the House in 2009 conforms to the Senate's proposal on damages. That is, for determining damages, the House (section 5) and Senate (section 4) bills propose an identical standard that is far more limiting than current practice. Specifically, the courts are to determine whether a claimed invention's "specific contribution over the prior art is the predominant basis for market demand for an infringing

product or process." If so, the damages may be maximally based on the entire market value of the infringing product or process. Furthermore, if the claimed invention has been the subject of a reasonable nonexclusive license, prior to the filing of the case before the court, for the same use as the infringing product or process, damages may be determined based on the terms of the license. Similarly, if the claimed invention has similar noninfringing substitutes that are subject of nonexclusive licenses for substantially the same use as the infringing product or process, damages may be determined based on the terms of such licenses. However, if none of the above conditions are met, the court is then to determine a reasonable royalty "applied only to the portion of the economic value of the infringing product or process properly attributable to the claimed invention's **specific contribution** over the prior art" (emphasis added).

### **Post-Grant Review**

In regards to reexaminations, the 2009 Act expands the basis of such post-grant proceedings by allowing submissions of not just patents or printed publications, but also evidence of substantial public use or sale in the U.S. more than one year prior to the U.S. patent application date and written statements of the patent owner filed in a Federal Court or the Patent and Trademark Office. The House bill additionally allows such written statements in proceedings before the International Trade Commission. Moreover, inter partes reexamination proceedings would be heard by administrative patent judges, as opposed to Examiners. 35 U.S.C. 317(b) would be amended to prohibit such inter partes proceedings once a judgment of a district court has been entered in a civil action.

The 2009 Act would also establish a post-grant opposition procedure, whereby any person may file a petition for cancellation "as unpatentable any claim of a patent on any ground" within 12 months of issuance of the patent. Of note, the cancellation petition is not limited to prior art submissions, but can be on any ground of invalidity.

### **Preissuance Submissions**

Like the 2007 Act, section 9 of the House bill and section 7 of the Senate bill provide a prescription for third party submissions during prosecution. Specifically,

<sup>2</sup> The opinions in this article do not represent the official positions of Stein McEwen, LLP.

<sup>3</sup> For simplicity, The Senate Bill (S.515) and the House bill (H.R.1260) will collectively be referred to as the "2009 Act".

the third party may submit prior art before the earlier of:

- a. the date a notice of allowance is mailed, or
- b. the later of either (i) 6 months after the publication date of the application or (ii) the date of the first rejection of any claim by the Examiner.

Any such submissions must include "a concise description of the asserted relevance of each submitted document."

#### **Venue and Jurisdiction**

The new regulations would curtail forum shopping and are more deferential to defendants in litigation. In particular, venue for civil actions and actions for declaratory judgment would be limited to where the defendant has its principal place of business or is incorporated, or to where the defendant has committed a substantial act of infringement. In the latter case, the defendant must also control thereat an established physical facility that constitutes a substantial portion of the defendant's operations. In very limited circumstances when the primary plaintiff is an institution of higher education, a nonprofit organization, or a micro-entity (such as an individual inventor), venue is proper where the primary plaintiff resides.

#### **Other Provisions**

Both bills provide for interlocutory appeals of district court claim construction orders (i.e., Markman Hearing Orders) to the Federal Circuit if the appeals are filed within ten days of entry of the relevant order. Moreover, the Director would have expanded authority "to set or adjust by rule any fee established or charged by the Office under sections 41 and 376... provided that such fee amounts are set to reasonably compensate the Office for the services performed." Section 6 of both bills establishes a new Patent Trial and Appeal Board, replacing the Board of Patent Appeals and Interferences. Accordingly, interferences are written off, replaced by derivation proceedings conducted by the Patent Trial and Appeal Board (along with appeals, reexamination proceedings, and post-grand opposition proceedings). Furthermore, the Act allows for statements filed in substitute of an oath or declaration by an Applicant when an inventor is "under an obligation to assign the invention but has refused to make the [required] oath or declaration."

#### **Conclusion**

While the simultaneous introduction of the same version of the Patent Reform Act of 2009 would give the impression that Congress is ready to implement these

long standing reforms, the Senate has recently indicated that the Senate version is not ready for a vote. One of the main contentious points is how to apportion damages under the new law, and whether such is even appropriate.<sup>4</sup> Until such issues are resolved, it seems unlikely that Patent Reform will be enacted in 2009, and even more unlikely that it will pass in its present form.

## Intellectual Property and Government Contracts Treatise Issued

In March 2009, Oxford University Press issued *Intellectual Property In Government Contracts: Protecting And Enforcing IP At The State And Federal Level*, which was coauthored by James G. McEwen in collaboration with two pre-eminent intellectual property practitioners whose combined experience spans the private and government sectors. *Intellectual Property In Government Contracts: Protecting And Enforcing IP At The State And Federal Level* provides a comprehensive survey of U.S. federal and state intellectual property procurement laws and gives valuable advice to government and private-sector attorneys on aspects of intellectual property, government procurement, and litigation from the perspectives of both the government and the contractor communities.

IP attorneys will find an extensive overview of U.S. federal and state procurement systems, strategies for preserving IP rights in the procurement process, and the practical guidance needed to avoid the pitfalls of government IP contracting while taking advantage of existing contracting flexibility. The treatise will provide a roadmap for high-tech contractors doing business with the government sector in the United States and will include an examination of methods proven to ensure compliance with government provisions. Additionally, the treatise analyzes remedies that actually work, and those that do not. Further, the treatise will offer an honest, nuanced appraisal of areas in which the government is legitimately vulnerable (like trademarks) and areas in which misapprehensions have wrongly scared off private sector companies (like patent march-in rights).

To order *Intellectual Property In Government Contracts: Protecting And Enforcing IP At The State And Federal*

<sup>4</sup> Brent Kendall, *Senate Panel Tweaks Patent Bill, Delays Significant Changes*, Dow Jones Newswires (March 29, 2009) (available at <http://online.wsj.com/article/BT-CO-20090326-710952.html>).

*Level*, please visit [amazon.com](http://amazon.com) or contact customer service at 1.866.445.8685, or visit Oxford University

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## Stein McEwen & Bui, LLP Becomes Stein McEwen LLP

With the departure of Mr. Hung H. Bui, the firm of Stein McEwen & Bui, LLP has become Stein McEwen LLP effective April 1, 2009. The firm retains its focus on quality and customer service for which it is well known.

The office location, phone numbers and personnel have otherwise not changed. However, the website has been changed to [www.smiplaw.com](http://www.smiplaw.com) and the email addresses have been changed to reflect the new domain name.



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Stein McEwen, 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, 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.

[www.smiplaw.com](http://www.smiplaw.com)

