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Key Patent Cases and Issues to Watch in 2011

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The U.S. Supreme Court and Court of Appeals for the Federal Circuit (CAFC) continue to issue decisions that are effectively judicial patent reform. It is important to keep close scrutiny on key patent cases. This article looks at cases decided in the past year that present issues to watch in 2011.

In 2007, I wrote an article for *The Legal* entitled, "Patent Reform in Congress, PTO Rules Changes and the Supreme Court." Practitioners were dealing with several important Supreme Court and Federal Circuit decisions then, including a lower bar for declaratory judgment challenges to patents stemming from *MedImmune*, new obviousness standards from *KSR v. Teleflex*, Congress's second attempt at patent reform legislation, and the PTO's imminent introduction of rules that would have seriously curtailed patent applicants' rights and significantly increased patent procurement costs. As that article noted, it presented a perfect storm converging from three directions on patent value.

The PTO rules package was defeated in a litigation challenge (a highly unusual event). Congress did not pass its 2007 reform legislation, but the CAFC and Supreme Court continued to release significant cases refining the law. Such court decisions have had a marked effect on patent prosecution and litigation. Patenting is more difficult, and challenges to issued patents are easier to mount in court, resulting in a reduction in strength of U.S. patents.

Post-2007, the global economy suffered significantly. One has to seriously consider whether it makes sense in this environment to further dilute U.S. patent strength and create barriers to entry for patent applicants. It is also questionable whether continuing legislative change in this direction is now warranted. One must evaluate



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whether the appellate decisions have alleviated many of the original concerns of the patent reform movement, such that the latest round of patent reform legislation in Congress (which is very watered down from the original) is even useful other than to end fee diversion.

Within this context, it is instructive to review the cases to watch, with an eye to which are likely to have the most impact on American innovation.

PATENT LITIGATION ABUSE

Starting in the patent litigation abuse area, there are a couple of recent, heartening decisions. The first decision is by the CAFC, *Eon-Net LP v. Flagstar Bankcorp*. The trial court assessed Rule 11 sanctions against the patent owner's attorney of \$141,984 and ordered the plaintiff to pay the accused infringer, Flagstar, \$489,150 in attorney fees. The CAFC affirmed.

The plaintiff, a limited partnership and P.O. box in the British Virgin Islands, alleged Internet websites using HTML technology to conduct e-commerce infringed its patent. While negotiating settlement of the litigation, Flagstar found no basis for alleged infringement and communicated this to the patent owner. The patent owner changed arguments and filed 15 copycat suits offering lower settlement figures. Flagstar moved for Rule 11 sanctions

for failure to sufficiently investigate infringement before filing the complaint.

After four years of litigation, including appeals, the CAFC affirmed the sanctions, while waiting for the appeal on the merits. Significantly, Flagstar alleged that Eon-Net's counsel did little more than look at Flagstar's website to see that it collected and extracted information from customers, without consulting experts or reviewing the accused infringing commercially available software.

The second decision in this area unexpectedly comes out of the plaintiff-friendly Eastern District of Texas. In *Raylon LLC v. Complus Data Innovations, et al.*, the defendant sought sanctions for failure to investigate infringement. Sanctions were declined by the court, which found the allegations not objectively unreasonable and the settlement amount not so unreasonable that it supported the plaintiff's belief that its case was weak or frivolous.

The court sent a warning signal: "[W]hen it appears to the Court that the cost of the litigation is more of a driving force than the merits of the patent-in-suit, then this Court will not hesitate to put the emphasis back on the merits of the patent-in-suit and consider Rule 11 sanctions if necessary."

Since 1934's *Radio Corp. of America v. Radio Engineering Labs Inc.*, through the U.S. Patent Act of 1952 and as held by the CAFC in *American Hoist & Derrick Co. v. Sowa & Sons Inc.*, the standard for proving patent invalidity has been clear and convincing evidence. The presumption of validity and burden on the challenger are codified in 35 U.S.C. §282.

In 2009, Microsoft challenged the standard unsuccessfully to the CAFC. Microsoft then filed for certiorari to the Supreme Court, and arguments were held April 18, 2011. In the appeal, *i4i L.P. v. Microsoft Corp.*, Microsoft, facing \$290 million in damages, asserted its prior art, having to do with a violation

of the on-sale bar, was not before the examiner, so the clear and convincing evidence standard is inappropriate.

Industry groups and other organizations fall on either side of this key issue. The justices' comments during oral argument tend to lean toward maintaining the standard, but are not conclusive. The AIPLA, Solicitor General and a group of 171 businesses, research institutions and organizations representing American innovation expressed concern that reversal of the standard would weaken U.S. patent value. As noted by the group, reversal would "undermine longstanding investment-backed reliance interests that are critical for domestic job creation and economic growth." Overturning the standard could lead, as suggested by various amici, to a standard that weakens patent value, and reduces the ability to rely on patents when making investment decisions. Perhaps unintended fallout of a reversal is further complication to patent prosecution.

INEQUITABLE CONDUCT

In the area of inequitable conduct law, the Federal Circuit heard arguments Nov. 9, 2010, and is poised to render a decision in *Therasense Inc. v. Becton Dickinson & Co.* The Federal Circuit is positioned to settle a split in its panel decisions through en banc re-hearing of one of its decisions.

Some panel decisions follow the *Kingsdown*, *Larson*, *Star Scientific* line of reasoning that intent to deceive in evaluating inequitable conduct should not be inferred when a favorable inference can be drawn on the facts at issue (leaving the burden of proving inequitable conduct squarely on the challenger). Others follow the *McKesson* line of reasoning, with intent being inferred on a showing of materiality and when the applicant does not have a good explanation for a failure to cite omitted prior art. The *Therasense* panel decision is a slight departure away from more recent trending toward *Kingsdown*, and shows deference to trial court observations.

The court's decision should provide some stability to inequitable conduct law. This issue is also one that Congress is attempting to ameliorate in other ways in its pending patent reform legislation by allowing applicants an opportunity to "clean up" the record of a patent when aware of uncited art.

However, the time period for doing so is limited, and this would not really alleviate vexatious use of inequitable conduct allegations. It is certainly less effective than if a strong statement is made by the CAFC en banc supporting the *Kingsdown* reasoning.

INDIRECT INFRINGEMENT

Another area of patent law before the Supreme Court and recently argued is intent in the context of inducement of infringement. In *Global-Tech and Pentalpha v. SEB*, Pentalpha was accused of reverse engineering a deep fryer and reselling it through Sunbeam Appliances. Pentalpha argued inducement of patent infringement requires a "purposeful, culpable expression and conduct" to encourage an infringement. Knowledge of infringement was argued insufficient to induce infringement and inducers should demonstrate some purposeful behavior.

The trial court responded with a lesser standard, i.e., the inducer "knew or should have known" its actions could induce infringement.

The CAFC held Pentalpha showed "deliberate indifference" to a known risk a patent may exist. The CAFC also felt Pentalpha had both knowledge to support that requirement and a state of mind necessary for active inducement.

A Supreme Court decision is pending, which will impact the ability to challenge patents in district court and so can impact patent valuation.

Also in the area of indirect infringement, consideration should be given to the CAFC decision in *Centillon Data Systems v. Qwest*. This opinion comes from a line of contributory infringement cases based on *BMC Re-sources Inc. v. Paymentech L.P. Centillon*, involving interpreting an infringing "use" in a system claim. Qwest operated "back end" portions of a system. Customers download and run a program, then input information, following which Qwest provides information from its "back end" processing on demand.

The court held Qwest did not "use" the system because it lacked control over users' personal computers. The end users "used" the system because they controlled use and downloaded information in response to comments from their computers. The standard applied by the CAFC was that "to 'use'

a system for purposes of infringement, a party must put the invention into service, i.e., control the system as a whole and obtain benefit from it."

WRITTEN DESCRIPTION

Careful attention should also be paid to changes in the patent law involving the issue of the written description requirement. Following the CAFC decision in *Ariad Pharm. Inc. v. Eli Lilly & Co.*, holding that the written description is definitely a separate requirement with its own analysis, written description will likely be a growing area for invalidity challenges.

One example is the recent CAFC decision in *Centocor Ortho Biotech Inc. v. Abbott Laboratories*. Following *Ariad*, the CAFC held, "[T]he specification must describe an invention understandable to [a person of ordinary skill in the art] and show that the inventor actually invented the invention claimed." A "mere wish or plan" of achieving the invention is inadequate written description.

The Supreme Court *Bilski* decision did not settle the question of an appropriate test to apply to evaluate patentability of business method patents, noting that the "machine or transformation" test is only one such possible evaluation. In an early CAFC post-*Bilski* decision, *Prometheus Labs. v. Mayo Collaborative Servs.*, the CAFC applied its machine or transformation test. It upheld the method at issue as patentable subject matter because there was a transformation in the body of a metabolite shown along with the recited "steps."

As the judiciary continues to progressively evolve and reform patent law, practitioners need to be on alert and to weigh such changes against the need for catch up rules from the PTO and belated and ineffective Congressional intervention, keeping an eye at all times on the value of American IP, its cost to applicants and its importance to our national economy. •