



# ***PATENT HAPPENINGS***

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on judicial, legislative, and administrative developments in patent law.

## **JUDICIAL HAPPENINGS**

### **Inequitable Conduct**

Beware, patent prosecutors! Federal Circuit finds three acts of inequitable conduct where a patent attorney, in prosecuting a first patent application, failed to disclose a prior-art reference, a claim rejection, and a notice of allowability given in two other copending applications prosecuted by that attorney. *McKesson Information Solutions, Inc. v. Bridge Med., Inc.*, 2007 WL 1452731 (Fed. Cir. May 18, 2007).

First, the Federal Circuit found inequitable conduct from the patent attorney's failure to disclose to an examiner in a first application a prior-art reference cited by an examiner in a second application. The court rejected the patentee's argument that since the attorney informed the first examiner of the existence of the second application the attorney could not have had an intent to deceive the PTO. 2007 WL 1452731, at \*17. Rejecting the argument that the prior-art reference lacked materiality because the second examiner cited it for a feature not at issue in the first application, the court held that the attorney was on notice of the content of the whole reference for purposes of the first application including other features disclosed in the reference that were relevant only to the first application. *Id.* at \*18. The court also found circumstantial evidence of intent to deceive from the attorney's cancelling of claims in the second application in response to the rejection based on the withheld reference since the attorney offered no credible reason for why he did not disclose the reference in the first application. Citing to the cautionary warning in the MPEP that "'information . . . specifically considered and discarded as not material' ought to be 'recorded in [the] attorney's file or applicant's file, including the reason for discarding it,'" the Federal Circuit noted that the absence of contemporaneously recorded notes in the attorney's

file showing why he concluded he did not have to disclose the reference in the first application further supported the inference of an intent to deceive. *Id.*

Second, the Federal Circuit found inequitable conduct in the patent attorney's failure to disclose in the first application a claim rejection made in the second application. The patentee argued that because the claims in the first application had several differences from the rejected claims, the rejected claims did not meet the "substantially similar" standard of *Dayco Prods., Inc. v. Total Containment, Inc.*, 329 F.3d 1358, 1368 (Fed. Cir. 2003), and therefore the rejection was not material. Rejecting this argument, the court held that the "substantially similar" standard of *Dayco* is only one example of when a claim rejection in a copending application can be material, but it does not set the minimum standard for materiality. *Id.* at \*20. The court instructed that "in the same way that prior art need not be substantially similar in order to be material, rejected claims in a copending application also need not be substantially similar in order to be material." *Id.* Since the claims in the two applications relied on the same element of a three-node system to support patentability, and the rejection in the second application was based on a combination of references showing a three-node system, the Federal Circuit found materiality as the rejection "would have been considered important to a reasonable examiner." *Id.* The court also noted that materiality was "arguably magnified" since the first examiner never cited the same combination of prior-art references used by the second examiner. *Id.* at 21. Finally, the Federal Circuit ruled that the cancellation of the rejected claims by the patentee in the second application further supported a finding of materiality of the rejection in the first application because it demonstrated that the cited combination of prior-art references could not be easily overcome. *Id.*

Third, the court found that the patent attorney's failure to disclose a notice of allowance issued in a third copending case in the prosecution of the first application was inequitable conduct since it could have led to a double-patenting rejection. The Federal Circuit accepted the district court's rationale that materiality was shown if a double-patenting rejection was "conceivable." The court also rejected the argument that because the first and third applications were before the same examiner in close temporal proximity the attorney had no need to inform the examiner of the notice of allowance. The court ruled that the patentee "was not entitled to assume that [the examiner] would recall his decision to grant the claims of the '372 patent when he was examining the '278 application in the absence of a written disclosure to that effect." *Id.* at \*25.

Judge Newman dissented. She faulted the majority for not properly applying the intent requirement and watering it down to such a level that the court was "return[ing] to the 'plague' of encouraging unwarranted charges of inequitable conduct, spawning opportunistic litigation . . ." *Id.* at \*26.

In another case involving copending applications, decided a few days before *McKesson*, a district court, ruled that a patentee had not committed inequitable conduct by failing to disclose to the PTO during the prosecution of its first application, which was directed to a drug compound called rabeprazole, a co-pending application directed to a homolog of rabeprazole. The court found that the materiality of the homolog application was questionable, but even if the homolog application had sufficient materiality, the accused infringer failed to show that the patentee intended to deceive the PTO by the nondisclosure. The court rejected the contention that an inference of intent should be found from the fact that the inventors filed separate applications in the alleged hopes that the examiners would not recognize the similarity between the two applications and issue provisional double-patenting rejections. According to the court, since both applications addressed similar subject matter, each application could easily have wound up before the same examiner. Further, the possibility of avoiding a provisional obviousness-type double-patenting rejection did not show an intent to deceive because the applicants could easily overcome such a rejection with a terminal disclaimer. *Eisai Co., Ltd. v. Dr. Reddy's Labs., Ltd.*, 2007 WL 1437834, \*26 (S.D.N.Y. May 14, 2007).

In a third case addressing inequitable conduct, a district court cleared the way for a twenty-five million dollar infringement verdict to stand (subject to a modification discussed in the Damages section *infra*) by ruling that a patentee's failure to disclose two of its own prior-art products and several products of its competitors did not amount to inequitable conduct. The court found that the patentee's first prior-art product was not material to patentability since it did not have several features of the claimed invention. The patentee's second prior-art product met the threshold to show materiality, but the court found insufficient evidence that the inventors had an intent to deceive the PTO by not disclosing the second product. While troubled by the inventors' failure to disclose the product, the court noted that the inventors' searches for prior art and discussions with patent counsel about prior art, made "a minimal showing of good faith efforts to fulfill their duty to disclose." The court then found that since the withheld prior art product was not highly material to patentability, and since there was no clear and convincing evidence that the inventors knew or should have known of the materiality of the withheld prior art, the inventors' conduct, while possibly showing gross negligence, did not show an intent to deceive. As to the withheld competitors' products, the court found that in view of the jury's rejection of the accused infringer's invalidity defenses based on these products, the products were not material. *Informatica Corp. v. Business Objects Data Integration, Inc.*, 2007 WL 1456151, \*7-\*10 (N.D. Cal. May 16, 2007).

False statements made by an inventor and its patent attorney in a petition to make special to expedite the examination of the patent application doomed another patent to a finding of unenforceability for inequitable conduct. Specifically, the prosecuting attorney had stated in the petition that he had made a "rigid comparison" of the accused product and pending claims in the application, but in actuality the attorney had never seen the accused product and was only relying on information given to him by the inventor. The inventor had falsely stated that he saw the accused product in an "open display" at a trade show, but the accused product was only displayed as a "black box" and in a way where it was not possible to discern if the accused product performed as required by the claims. The inventor also falsely suggested in his supporting declaration that the accused infringer had copied the inventor's device. *Scanner Technologies Corp. v.*

*ICOS Vision Sys. Corp., N.V.*, 2007 WL 1470599, \*13 (S.D.N.Y. May 22, 2007).

**Obviousness**

In March, before the Supreme Court handed down *KSR*, the Federal Circuit ruled in *Pfizer, Inc. v. Apotex, Inc.*, 480 F.3d 1348, 1365-67 (Fed. Cir. 2007), that claims directed to a pharmaceutical composition of a besylate salt of amlodipine were obvious over a patentee's prior-art patent disclosing amlodipine maleate forms of the composition. Reversing the district court's judgment finding the claims valid, the panel concluded that the use of the besylate salt was a "routine substitution" for the amlodipine maleate to achieve optimal manufacturing characteristics, and therefore obvious. Alarmed by what appeared to be a resurrection of the "obvious to try" standard and a possible misapplication of the law regarding unexpected results, the patentee and several amici curiae petitioned the Federal Circuit for an *en banc* rehearing. Over the separate dissents of Judges Lourie, Newman, and Rader, the court declined to hear the case *en banc*. In their individual dissents, each judge noted its disagreement with the substantive bases on which the panel decided the case, pointing particularly to the issue of obvious-to-try in the context of pharmaceuticals. Notably, however, the dissenting judges refrained from commenting on how they viewed *KSR*'s impact on these issues. *Pfizer, Inc. v. Apotex, Inc.*, 2007 WL 1464593 (Fed. Cir. May 21, 2007).

**Public Use**

An inventor's precritical-date display to several potential investors of a prototype of his invention regarding a hand-held computer keyboard did not create a public-use bar where the keyboard was not operated during the display. Vacating a summary judgment of invalidity, the Federal Circuit held that since the inventor never hooked the prototype up to a computer so that it was "used in the normal course of business to enter data into a system," the display did not rise to the level of a "public use." The court further supported its finding by noting that operational aspects of the keyboard could not be discerned from merely looking at the prototype. *Motionless Keyboard Co. v. Microsoft Corp.*, 2007 WL 1531401, \*6-\*7 (Fed. Cir. May 29, 2007). Although *Motionless Keyboard* addresses a showing to investors rather than commercial customers, its holding may have relevance to the issue of whether visually displaying, but not operating, a device at a trade show constitutes a

"public use" for purposes of §§ 102(a) and (b).

**Experimental Negation**

A manufacturer's precritical-date sales to two aircraft companies of prototypes of a terrain-warning system for an aircraft did not create an invalidating on-sale bar, and the precritical-date use of the prototypes did not create an invalidating public use, where the sale and use were done to facilitate the testing of the system in a genuine setting. Since the sole purpose of the sale was to permit the patentee to test the system to determine if it worked for its intended purpose, the Federal Circuit affirmed the judgment of no invalidity and the finding that the doctrine of experimental negation applied as an exception to the on-sale and public-use bars. Even though the patentee's testing did not result in any design changes to the system, the court found that did not prejudice the patentee's invocation of experimental negation. The court also found that the invention was not "ready for patenting" or "reduced to practice" at the time of the sale and use since testing was needed well after the critical date to show that the device worked for its intended purpose. *Honeywell Int'l, Inc. v. Universal Avionics Sys. Corp.*, 2007 WL 1518852, \*11-\*13 (Fed. Cir. May 25, 2007).

**Infringement**

Following the well-settled rule that literal infringement requires that the accused device meets each claim limitation exactly, a district court granted a JMOL overturning a jury's verdict finding literal infringement where the accused device used a microprocessor running software and the claim recited specific circuit components, i.e., hardware. Relying on the Federal Circuit's decision in *Overhead Door Corp. v. Chamberlain Gp., Inc.*, 194 F.3d 1261 (Fed. Cir. 1999), the district court held that a software implementation in an accused product, as a matter of law, could not literally infringe claims reciting hardware components. The court noted that "at best, software implementation of certain mechanical implementations can only be infringed under the doctrine of equivalents." Rejecting the patentee's argument that literal infringement existed because the microprocessor performed the same function as the recited hardware, the court stated: "A microprocessor that does the same thing as distinct physical, electronic components is not literally infringing. They may do the same function, but they are not the same device. And when looking at infringement of an apparatus claim the issue is on what the device is not what it

does.” *Agrizap, Inc. v. Woodstream Corp.*, 2007 WL 1437689, \*5-\*6 (E.D. Pa. May 15, 2007).

### Damages

Vacating a \$630,000 damage award, the Federal Circuit held that a patentee failed to show entitlement to lost profits where the patentee had not made or sold a product during the period of infringement. The Federal Circuit, nonetheless, rejected the infringer’s argument that the failure to sell a product during the period of infringement erects an absolute bar to all lost-profit damages. Rather, the court instructed that a patentee can recover as damages, profits it loses from diverted sales or price erosion that occur *after* the period of infringement if those losses are shown to have been caused by infringing acts done *during* the period of infringement. For example, if due to the infringement, the infringer had established a dominant market presence that prevented the patentee, after the infringement ceased, from making as many sales as it would have made but for the infringement, or the patentee would have sold its product at a higher price, those losses could be recoverable as lost profits. In the case, however, the Federal Circuit ruled that the patentee failed to introduce substantial evidence to support either theory. Testimony from the patentee’s damages expert that the patentee *could* have sold to more customers did not provide evidence that the patentee *would* have sold to those customers as required to sustain a lost-profits award. The Federal Circuit also found the patentee’s evidence on price erosion lacking where the evidence merely consisted of testimony that the patentee wanted to sell at a higher price without any evidence showing that the infringer’s earlier presence in the market forced the patentee to sell at the price it did. Judge Mayer dissented. In his view, the patentee had presented substantial evidence through its expert testimony to support the lost-profits award. *Wechsler v. Macke Int’l. Trade, Inc.*, 2007 WL 1452791, \*6 (Fed. Cir. May 18, 2007). A logical extension of *Wechsler* suggests that a patentee can recover post-patent expiration lost profits if it can show those losses were caused by infringing acts done during the enforceable term of the patent.

Considering the issue of established royalty rate, the Federal Circuit held that where a patentee had granted farmers permission to use its patented seed for a Technology Fee of \$6.50 per bag of seed, with the additional provisions that the farmers had to buy the seed from an authorized distributor who added its own royalty fee of about \$20 per bag, and the farmer also

had to promise not to save seeds produced from the purchased seed, an infringer could not properly assert that the damages he owed should be limited to \$6.50 per bag. The lack of continuity in the economic factors associated with Technology Fee and the infringement precluded characterizing the \$6.50 Technology Fee as an established royalty rate that should be used as the measure for determining reasonable royalty damages. Instead, the Federal Circuit affirmed as being supported by substantial evidence the jury’s reasonable royalty award set at \$40 per bag in view of the patentee’s evidence that by infringing, the infringer realized a costs savings in the range of \$30 to \$60 per bag. *Monsanto Co. v. McFarling*, 2007 WL 1502080, \*5-\*7 (Fed. Cir. May 24, 2007).

In what appears to be the first application of the April 30 decision in *Microsoft Corp. v. AT & T Corp.*, 127 S. Ct. 1746 (2007), a district court held that a foreign-sale component of a jury’s damage award was impacted where a portion of the foreign sales were based on software replicated abroad from a master disk the infringer had exported. The court ruled that under *Microsoft* these damages were not recoverable. The court also held that damages awarded for foreign sales based on products loaded with the software in the United States and then exported could stand. In temporarily sidestepping the issue of whether software downloaded from the internet could support liability under § 271(f), the court ruled that it was not clear how *Microsoft* impacted the situation where software was downloaded in a foreign country directly from the infringer’s website or where it was downloaded through a third party’s website. The court plans on addressing these issues when it considers the parties’ motion for a new trial on damages. *Informatica Corp. v. Business Objects Data Integration, Inc.*, 2007 WL 1456153, \*5-\*6 (N.D. Cal. May 16, 2007).

Tackling the discretionary issue of whether to award a patentee prejudgment interest at the prime rate or at the Treasury Bill rate, a district court held that, as a general rule, a patentee should receive prejudgment interest at the prime rate only when it shows that during the period of infringement it borrowed money at or above the prime rate. Since the patentee failed to provide any evidence that it borrowed any money during the infringement period, the court awarded interest at the 52 week Treasury Bill rate, compounded annually. The court refused to deduct from the award interest accrued during periods of the litigation that the patent was held not infringed or invalid. *Mars, Inc. v.*



*Coin Acceptors, Inc.*, 2007 WL 1521124, \*7-\*9 (D.N.J. May 22, 2007).

### Licensing

To the dismay of a patentee, the Federal Circuit affirmed a finding that a covenant-not-to-sue, given by the patentee to settle a previous infringement suit involving a first accused infringer, transferred to a second accused infringer, who had acquired the first accused infringer. The court explained that while patent licenses are generally not freely transferable, if the license agreement contains express provisions permitting a transfer of the license to another, those provisions will be honored and enforced. In the case, the settlement agreement contained provisions permitting the transfer of the license to a successor if certain conditions were met. The accused infringer demonstrated that it had met those conditions, and therefore it had a complete defense to the infringement charge since the original covenant-not-to-sue transferred to it. *Gen. Mills, Inc. v. Kraft Foods Global, Inc.*, 2007 WL 1427729, \*3-\*5 (Fed. Cir. May 16, 2007).

### Need for Expert Testimony

An accused infringer's failure to provide expert testimony showing why one of skill in the art would find the claims of the patent broader than the description of the invention in the patent specification sunk its § 112 invalidity challenge for lack of an adequate written description. Finding that the technology at issue "is not a simple technology and the specification is not readily accessible to interpretation by the average layman juror," the court determined that expert testimony was essential to proving the defense. Given the lack of expert testimony, the court ruled that the accused infringer failed to raise a genuine issue of material fact to support its written-description defense, and granted the patentee summary judgment dismissing the defense. *Lucent Technologies Inc. v. Gateway, Inc.*, 2007 WL 1449804, \*3 (S.D. Cal. May 15, 2007).

In a case involving obviousness-type double patenting, an accused infringer's failure to provide factual evidence, i.e., expert testimony, showing that the challenged claims were patentably indistinct from claims of two other patents ruined its validity challenge. The district court explained that "to defeat a motion for summary judgment against the defense of obviousness-based double patenting, [the accused infringer] is required to give the court some

evidence—some factual presentation—as to why the differences between claims are not 'patentably distinct.'" The court, therefore, granted the patentee summary judgment dismissing the invalidity challenge since the accused infringer had only presented attorney argument to support its theory of invalidity and the technology was not so simple that the court could rule as a matter of law on whether the claims were patentably indistinct. *Smith & Nephew, Inc. v. Arthrex, Inc.*, 2007 WL 1467228, \*15 (D. Or. May 17, 2007).

A district court denied an accused infringer's summary judgment motion on the issue of obviousness solely on the basis that the accused infringer failed to provide expert testimony as to the level of skill in the art. The court refused to consider whether the prior art itself suggested the level of skill in the art. *Baden Sports, Inc. v. Molten*, 2007 WL 1526344, \*2-\*3 (W.D. Wash. May 23, 2007).

### Procedural Rulings

Shaking up the traditional understanding of "notice pleading" under Rule 8(a) of the Federal Rules of Civil Procedure (FRCP), the Supreme Court held that to survive a motion to dismiss, a complaint must plead sufficient facts to show "plausible grounds" by which the plaintiff seeks relief. According to the Court,

While a complaint attacked by a Rule 12(b)(6) motion to dismiss does not need detailed factual allegations, a plaintiff's obligation to provide the "grounds" of his entitlement to relief requires more than labels and conclusions, and a formulaic recitation of the elements of a cause of action will not do[.] Factual allegations must be enough to raise a right to relief above the speculative level. . . . The need at the pleading stage for allegations plausibly suggesting (not merely consistent with) [the presence of a required element of the cause of action] reflects the threshold requirement of Rule 8(a)(2) that the 'plain statement' possess enough heft to show that the pleader is entitled to relief. . . . [W]e do not require heightened fact pleading of specifics, but only enough facts to state a claim to relief that is plausible on its face.

*Bell Atlantic Corp. v. Twombly*, 127 S. Ct. 1955, 1964-66, 1974 (May 21, 2007).

Although *Twombly* arose in the context of an antitrust claim, it will likely have an impact on patent matters; particularly upon the practice of pleading invalidity in a declaratory-judgment claim where accused infringers often only identify statutory

provisions of the Patent Act and do not plead what specific items of prior art form the “grounds” for their invalidity defenses under those statutes. At present, it is not clear if *Twombly*’s requirements will apply to affirmative defenses under Rule 8(c), and thus it’s unclear whether it applies when an accused infringer asserts invalidity only by way of an affirmative defense. *Twombly* will not likely affect pleading allegations of direct infringement. The sufficiency of direct infringement allegations in a complaint are generally measured against the level of detail shown in the FRCP’s sample patent infringement complaint (a/k/a Form 16). The allegations in Form 16 appear to meet the “plausible grounds” standard for direct infringement. *Twombly* may apply to aspects of claims of indirect infringement, *e.g.*, what acts are alleged to have aided or abetted another’s direct infringement.

Recognizing the increased difficulty in finding prior art related to internet-based inventions, the Northern District of California permitted an accused infringer to amend its final invalidity contentions to assert as prior art a website its counsel recently discovered. The court found good cause for granting leave based on the accused infringer’s showing that the website was more material than any of the other prior art previously cited and that several months remained before fact discovery closed. Additionally, the court noted that “because of the nature of internet-based technology [it] is more sympathetic towards difficulties in identifying prior art than it would be in cases dealing with more traditional technology.” The court also instructed, however, that the increased difficulty in searching for internet-related prior art did not fully excuse a failure to identify relevant prior art sooner, it

only made the failure to do so “more understandable than it would be in a technological field where prior art is more easily identified.” *Yodlee, Inc. v. CashEdge, Inc.*, 2007 WL 1454259, \*2 (N.D.Cal. May 17, 2007).

### Privilege

Oral argument before an *en banc* panel of the Federal Circuit on the scope of waiver of attorney-client privilege from disclosing opinions of counsel is set for Thursday, June 7, 2007 at 2:00 pm in the matter of *In re Seagate Technology*.

### **LEGISLATIVE HAPPENINGS**

In a May 3, 2007 letter to Senators Leahy and Hatch, Judge Michel stated the Federal Circuit’s views that the proposed legislation granting parties an immediate appeal from a claim-construction order could double the court’s caseload and the time to resolve a patent case. He further urged that such appeals would be inefficient and that the current summary judgment procedure provides an adequate mechanism for parties to obtain an appeal of a claim-construction ruling in a timely fashion. Additionally, Judge Michel spoke against the proposed rule requiring an apportionment of damages as placing too great a practical burden on the courts in having to undertake the required economic analysis.

### **ADMINISTRATIVE HAPPENINGS**

Effective May 17, 2007, the rules governing the Patent Prosecution Highway pilot program were amended to permit certain national stage applications filed in the USPTO from a PCT application claiming priority to a national application filed in the JPO to be eligible to participate in the program.

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