

BILSKI AND THE SUPREMES – Will billions of dollars of assets really evaporate?

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Short Answer

Anyone's guess.

The U.S. Supreme Court is going on recess shortly and it was expected by many practitioners that we would have a result by now.

Where are we?

Class 705 is the class into which the PTO puts “business method patents”.

From 2006 to 2008: 27152 applications were filed in this class.

From 2002-2008: 6152 patents were granted in this class.

Assuming only \$10,000 to file and prosecute these applications, the total investment in these cases alone exceeded \$330 million.

Where are we? (continued)

Taking account the number of businesses which have been built around these patents and the number easily extends into the billions.

Further this does not take into account the numbers of software and other method patents which have been and may be affected by the Bilski holding.

How did we get here?

1998

State Street Bank & Trust Co. v Signature
Financial Group, Inc

This case is generally credited with opening the business method patent application flood.

The patent relates to a “Hub and Spoke” structure of mutual funds whereby assets of the Spokes and costs are pooled in the Hub and the value of the asset pool attributable to each Spoke is a function of the amount of Spoke assets in the asset pool.

How did we get here? (continued)

State Street Bank & Trust (continued)

Simply put, the CAFC reversed the District Court's holding that the claims were not directed to statutory subject matter.

2008

In Re Bernard L. Bilski and Rand A. Warsaw

The claims in Bilski were directed toward a method of hedging risk in commodities trading.

How did we get here? (continued)

In Re Bilski (continued)

In upholding a decision by the Board of Patent Appeals and Interferences, the CAFC invoked the U.S. Supreme Court test in Gottschalk v Benson 409 U.S. 63 (1972) that to be patentable under 35 U.S.C. §101 the claimed process must be tied to a particular machine or apparatus or must transform a particular article into a different state or thing.

How did we get here? (continued)

The claims in *Bilski* were not directed toward any specific machine or apparatus and were not transformative.

The dissent asserted that this was a new restriction on the kinds of inventions that are patentable and that the CAFC achieved this result by redefining the word “process”.

Bilski appealed and the U.S. Supreme Court accepted cert.

The Supreme Court hearing

The transcript makes interesting reading.

From the transcript there appears to be some confusion among the Justices as to the distinctions among §§ 101 (statutory subject matter), 102 (novelty) and 103 (obviousness).

i.e. The questions asked by the Justices appeared to blur the distinction between whether something is patentable and whether it should be patented.

§101 v § § 102 and 103

§101 is just a definition as to what inventions are *eligible* for patenting.

§102 (novelty) and §103 (obviousness) are tests for whether eligible inventions deserve a patent in view of what has gone before.

Many inventions are eligible for a patent but are not patentable because of what has come before.

Issues

Policy (pro):

A good deal of money has been spent in obtaining and using business method patents. To come to a decision now that these inventions are not patentable affects not only those who relied on the patentability of business methods but also substantially anyone obtaining a patent on anything. The collateral effect is always the thought that if patentability under §101 can change so significantly what is the value of a patent?

Issues (continued)

Policy (con):

Business methods are more abstract than most patentable inventions. At what point should such abstract concepts be held by a single patentee. After all, we do not allow patents on mathematical formulae or laws of nature.

Likely Outcome?

As the saying goes: “Prediction is very difficult, especially about the future.”

Variously attributed to:

Robert Storm Petersen

Niels Bohr

Samuel Goldwyn and

Yogi Berra

Likely outcome (continued)

My assumption is that all business method patents will not go away.

However, it is likely that any such claims will have to be written in terms of hardware and strict methods without a technology nexus will be unpatentable.

Questions

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Post *eBay* – The State of Permanent Injunctions

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Pre-eBay:

“General Rule”: A permanent injunction should follow upon proof of infringement of a valid patent. Injunctions denied only in the “unusual” case, under “exceptional circumstances” and “ ‘in rare instances ... to protect the public interest.’ ”

The theory behind the practice: A patent gives the holder the right to *exclude* others.

Post-eBay:

“The decision whether to grant or deny injunctive relief rests within the equitable discretion of the district courts, and that such discretion must be exercised consistent with traditional principles of equity, in patent disputes no less than in other cases governed by such standards.”

eBay v. MercExchange LLC, 547 U.S. 388, 394 (2006).

The traditional four-factor test applies:

1. Irreparable injury;
2. Inadequate remedies available at law;
3. Balance of hardships; and
4. Public interest.

eBay v. MercExchange LLC, 547 U.S. 388, 391 (2006).

Post-eBay Injunction Rulings

126 district court cases since May 15, 2006.*

Grant of permanent injunction: **72%** (91 cases)

Denial of permanent injunction: **28%** (35 cases)

* University of Houston Law Center's Patstats (updated 5/1/2010)

Justice Kennedy's Concurring Opinion

In cases now arising trial courts should bear in mind that in many instances the nature of the patent being enforced and the economic function of the patent holder present considerations quite unlike earlier cases. An industry has developed in which firms use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees.

eBay v. MercExchange LLC, 547 U.S. 388, 397 (2006)
(Kennedy, J., concurring).

Justice Kennedy's Concurring Opinion

For these firms, an injunction, and the potentially serious sanctions arising from its violation, can be employed as a bargaining tool to charge exorbitant fees to companies that seek to buy licenses to practice the patent. When the patented invention is but a small component of the product the companies seek to produce and the threat of an injunction is employed simply for undue leverage in negotiations, **legal damages may well be sufficient to compensate for the infringement and an injunction may not serve the public interest.**

Id.

Factors

- Patentee Practices Invention
- Direct Competition
- Willful Infringement
- Lost Market Share/Sales Linked to Infringement
- Licensing Others
- Harm to Reputation
- Impact on Infringer's Business
- Public Interest

Questions

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USER-GENERATED CONTENT

Posters, Bloggers, On-Line Communities And The Law

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The Proliferation of User-Generated Content (UGC)

Commercial Sites – Amazon, eBay

Review Sites – TripAdvisor, CNET

YouTube (Viacom v. Google)

LimeWire (Grokster)

Bloggers – commenters

On-line communities: organic, created

UGC can create liability

Relevant Law

Copyright Act 17 U.S.C. §§101-810

Trademark Act 15 U.S.C. §§1051-1141; state; common

Defamation and other tort law; state

Advertising Law; state; FTC

Digital Millennium Copyright Act, 17 U.S.C. §512

Communications Decency Act, 47 U.S.C. §230

How to manage liability?

Importance of Terms of Use

Enforceability?

- click-wraps
- browse-wraps

Restrictions in Terms of Use

- protection from liability
- create rules and remedies
- implementation for safe harbors/secondary liability

Digital Millennium Copyright Act

Copyright Law:

- original expression
- life plus 70 years
- not mere facts or data
- text, graphics, photos, video, music

DMCA:

- Safe Harbor structure: conduit, cache, host, search (§§512(a-d))
- Must: register agent, terminate repeat offenders, implement notice and takedown, allow standard technical measures
- Can fall out: actual knowledge, red flag context, direct financial benefit

FAIR USE

Trademark Law

No Safe Harbor

Fair Use

Policies, such as

Tiffany v. eBay

- must have sufficient knowledge of specific acts
- eBay acted appropriately - structure

Communications Decency Act

“No provider of an interactive computer service shall be treated as the publisher or speaker of any information provided by another information provider.”

Broad definitions

Pre-empts state tort law – defamation

Does NOT cover intellectual property rights

Advertising Law

State regulations

- FTC
- online advertising guidelines
 - Behavioral advertising
 - Transparency and consumer control
 - Blogger disclosures

Questions

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Critical Developments in Patent Damages

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Patent Damages: The Basics

- 35 USC 284 – Adequate To Compensate For The Infringement
- Lost Profits: Panduit Corp. v. Stahlin Brothers Fibre Works
- Reasonable Royalties: Georgia Pacific Corp v. U.S. Plywood Corp.

Patent Developments: Recent Developments

The Entire Market Value Rule

- Application subject to increased scrutiny by the courts
- New emphasis on gatekeeper roll of district courts

Evidentiary Standards To Prove Patent Damages

- New emphasis on gatekeeper roll of district court
- Comparability of prior licenses subject to increased scrutiny

Entire Market Value Rule

What Is The Rule?

- The EMV Rule allows a patentee to collect damages on the unpatented components sold with the patented invention rather than just the portion due to the patented components, i.e., the entire market value of the accused product is in play in the damages calculation.

Why Do Plaintiff's Want To Use It?

- Particularly in reasonable royalty cases brought by non-practicing entities, where the accused product is often a large, complex software package or electronic device with hundreds of features, the EMV Rule acts as a huge multiplier on the final damages award

When Can The EMV Rule Be Used?

- The EMV Rule can be used when the patented feature is the basis for customer demand for the accused product that nevertheless contains other features or is necessary to fully compensate the patentee for the infringement on his invention

Entire Market Value Rule (continued)

Historical Sources

- Elizabeth v. Nicholson Pavement Co. – 1877
- Garretson v. Clark – 1884

Leading Modern Cases

- Marconi Wireless Telegraph Co. v. U.S. - 1942
- American Safety Table Co. v. Schreiber - 1969
- Rite-Hite v. Kelley - 1995
- Tec Air, Inc. v. Denso Mfg, Inc. - 1999
- Fonar Corp. v. General Electric Co. - 1999

Recent Decisions

- Cornell Univ. v. Hewlett-Packard – March 30, 2009 (May 27, 2008)
- Lucent Technologies v. Gateway Inc. – September 11, 2009
- IP Innovation v. Red Hat – March 2, 2010

Entire Market Value Rule (continued)

The Cornell Case (J. Rader, acting as trial judge, N.D.N.Y.):

- Patent covered one component of the Instruction Reorder Buffer (IRB), which was small part of HP processor, which was small part of HP “brick”, which was small part of HP server
- Plaintiff tried to use EMV Rule using “servers,” then “bricks” as royalty base
- Server base = \$38 Billion; “brick” base = \$23 Billion; processor base = \$6 Billion
- No evidence linking demand for servers or “bricks” to patented invention
- No evidence of a separate market for “bricks”
- Smallest saleable unit was processor – which Plaintiff ignored
- EMV Rule Rejected – JMOL/Remittitur Granted

Entire Market Value Rule (continued)

The Red Hat Case (J. Rader, acting as trial judge, E.D.TX):

- Patent covered network switching feature in a LINUX-based operating system
- Accused operating system had 1000 other features
- Plaintiff attempted to use EMV Rule by adopting the Operating System as Royalty Base
- EMV Rule rejected by Court because:
 - No evidence that patented invention drove demand for accused operating system
 - Some evidence patented feature was not used at all by some users
- Therefore, experts' proposed testimony excluded

Entire Market Value Rule (continued)

The Lucent Case (Fed. Cir., J. Michel):

- Patent covered a date-picker tool in Microsoft Outlook
- Jury awarded a lump-sum royalty of \$358 million
- Defense argued in JMOL motion that jury applied the EMV Rule to reach the \$358 million verdict
- Court Held That EMV Was Not Appropriate In This Case Because:
 - No evidence that the patented date-picker tool was the basis – or even a substantial basis – for consumer demand for Outlook
 - The patented date-picker tool was a very small component of a much larger program
 - Other features of Outlook more important to users
 - Methodology of Plaintiff's expert was suspect

Evidentiary Standards for Patent Damages

Leading Historical Cases

- Del Mar Avionics v. Quinton Instrument Co. - 1987
- Grain Processing v. American Maize-Products - 1989
- Shockley v. Arcan - 2001
- Riles v. Shell Exploration & Production - 2002
- Crystal Semiconductor v. Tritech Micro Int'l. - 2005
- Integra Lifesciences v Merck – 2005

Recent Decisions

- Lucent Technologies v. Microsoft Corp. – September 11, 2009 Patent
- ResQNet.com v. Lansa, Inc. – February 5, 2010
- IP Innovation v. Red Hat – March 2, 2010

Evidentiary Standards for Patent Damages (continued)

The Lucent Case

- No evidence on importance of invention to consumers of accused product
- Minimal evidence regarding how prior licenses related to patented technology
- Some of the prior license evidence was insufficient to even understand the subject matter – couldn't even assess comparability with patented technology at issue

Evidentiary Standards for Patent Damages (continued)

The ResQNet Decision

- Five (5) prior license agreements had no relation to patented technology and encompassed far more than the hypothetical license being considered in this case, but were used to inflate the claimed royalty rate
- A prior license of the patented technology that arose out of litigation of the patents-in-suit was not appropriately considered

Evidentiary Standards for Patent Damages (continued)

The Red Hat Case

- Industry statistics on royalty rates were not shown to be “in any way comparable to the patents-in-suit”
- Prior licenses of the patents-in-suit were ignored because they were ten (10) years ago –no effort to account for passage of time
- “The parties are reminded that expert testimony on topic of damages will not be allowed absent a firm basis in accepted economic principles with an eye to the facts of record”

Evidentiary Standards for Patent Damages (continued)

Take-Aways From Recent Decisions

- Focus must be on damages caused by infringement of claimed invention
 - “a reasonable royalty analysis requires a court to hypothesize, not to speculate”
 - “the damages inquiry must concentrate on compensation for the economic harm caused by infringement of the claimed invention”
 - “the trial court must carefully tie proof of damages to the claimed inventor’s footprint in the market place.”

Evidentiary Standards for Patent Damages (continued)

Take-Aways From Recent Decisions

- Other Licenses Must Be Comparable
 - Industry wide licensing statistics of little value unless linked to patented technology by reliable evidence
 - Licenses of unrelated technology or having additional rights likely irrelevant
 - Licenses arising from patent at issue most relevant
 - Licenses arising from settlements of litigation involving patented technology could be relevant/open to discovery
- All Georgia-Pacific Factors Must Be Tied To The Facts of the Case

Evidentiary Standards for Patent Damages (continued)

Take-Aways From Recent Decisions

- EMV Rule excluded unless proponent shows by reliable evidence a connection between the market for royalty base and patented invention, i.e., evidence tending to provide that the patented technology contributed substantially to customer demand for that base

Questions

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Inequitable Conduct – Dead or Alive?

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A Statistical View

Between 1/1/2006 and 5/20/2009, out of all CAFC patent-related opinions:

- Inequitable conduct was raised in 48% (64 cases)
- Among these 64 cases:
 - 66% - no inequitable conduct
 - 20% - inequitable conduct
 - 14% - remanded

Source: BNA's Patent, Trademark & Copyright Journal, 79 PTCJ 299, 1/15/2010

Out of all patent cases decided (by district courts and CAFC) in 2008-2009:

- inequitable conduct alleged re 131 patents
- 29 (22%) found unenforceable

Source: www.patstats.org (University of Houston Law Center)

Elements for Inequitable Conduct

Infringer needs to prove by *clear and convincing evidence* that

- *a person substantively involved in the preparation or prosecution of the patent*
- *affirmatively misrepresented a **material** fact, failed to disclose **material** information, or submitted false **material** information*
- *with an **intent** to deceive the PTO*

Inequitable Conduct Analysis

Step 1. Infringer must show:

threshold level of **materiality** and
threshold level of **intent**

although a greater showing of one allows a lesser showing of the other.

Step 2. Patent holder can rebut with *good faith* explanation to counter evidence of intent to deceive (e.g., plausible, legitimate reasons for withholding prior art)

Step 3. Court's balancing of equities

Materiality

Rule 56:

- Pre-1992 Amendment

Materiality is determined by **reasonable examiner** standard

- 1992 Amendment

Information is material if it is not cumulative to what is already of record and either establishes “**a *prima facie* case of unpatentability of a claim**” or “**refutes, or is inconsistent with**” a position taken during prosecution

However, courts (including the Federal Circuit) continue to apply the pre-1992 **reasonable examiner** standard.

Intent

Disparities between different panels in the Federal Circuit on the legal standard for intent:

“Single most reasonable inference”

versus

“Should have known” standard

“Single most reasonable inference”

- Inferences “must not only be based on sufficient evidence and be reasonable in light of that evidence, but it must also be the **single most reasonable inference** able to be drawn from the evidence to meet the clear and convincing standard – *Star Scientific Inc. v. R.J. Reynolds Tobacco Co.*, 537 F.3d 1357 (Fed. Cir. 2008)

Finding no intent to deceive – intent to deceive not the single most reasonable inference:

- *Ariad Pharmaceuticals Inc. v. Eli Lilly & Co. Inc.*, 560 F.3d 1366 (Fed. Cir. 2009)

“Should have known”/ “Gross negligence”

- Intent may be inferred where a patent applicant knew, or **should have known**, that withheld information could be material to the PTO’s consideration of the patent application - *Critikon, Inc. v. Becton Dickinson Vascular Access, Inc.*, 120 F.3d 1253 (Fed. Cir. 1997)

Finding of inequitable conduct affirmed based on:

- Failure by patent attorney to investigate sale of the invention – *Brasseler, U.S.A. I, L.P. v. Stryker Sales Corp.*, 267 F.3d 137 (Fed. Cir. 2001)
- Failure to disclose to the PTO that several declarations submitted to support patentability were from paid consultants – *Ferring B.V. v. Barr Laboratories, Inc.*, 437 F.3d 1181 (Fed. Cir. 2006)
- Misrepresentation in declaration regarding dosage information - *Aventis Pharma S.A. v. Amphastar Pharmaceuticals Inc.*, 525 F.3d 1334 (Fed. Cir. 2008)
- Failure to disclose highly material prior art - *PraxAir Inc. v. ATMI Inc.*, 543 F.3d 1306 (Fed. Cir. 2008)

Good Faith Evidence

- *Larson Manufacturing Co. v. Aluminart Products Ltd.*, 559 F.3d. 1317 (Fed. Cir. 2009) – Federal Circuit regarded Larson’s notification to the Reexamination Panel of the simultaneous prosecution of related application, and disclosure of court documents in a related litigation, including Aluminart’s allegations of inequitable conduct, as evidence of good faith

Recent Fed. Cir. cases

Do not need “wholly distinct facts” to show intent versus materiality; intent properly inferred from disclosing and distinguishing double top stitch while withholding closer stitch - *Taltech Ltd. v. Esquel Enters. Ltd.*, No. 2009-1344 (Fed. Cir. May 12, 2010).

Late disclosure (during reexamination) may be evidence of good faith; vacated and remanded for evidentiary hearing – *Leviton v. Universal Security*, No. 09-1421 (Fed. Cir. May 28, 2010)

Inference of intent not drawn despite “high” materiality and lack of explanation for failure to disclose, affirming SJ of no inequitable conduct – *Optium v. Emcore*, No. 09-1265 (Fed. Cir. May 5, 2010)

Therasense En Banc Questions

1. Should the materiality-intent-balancing framework for inequitable conduct be modified or replaced?
2. If so, how? In particular, should the standard be tied directly to fraud or unclean hands? If so, what is the appropriate standard for fraud or unclean hands?
3. What is the proper standard for materiality? What role should USPTO's rules play in defining materiality? Should a finding of materiality require that but for the alleged misconduct, one or more claims would not have issued?
4. Under what circumstances is it proper to infer intent from materiality?
5. Should the balancing inquiry (balancing materiality and intent) be abandoned?
6. Whether the standards for materiality and intent in other federal agency contexts or at common law shed light on the appropriate standards to be applied in the patent context.

Questions

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