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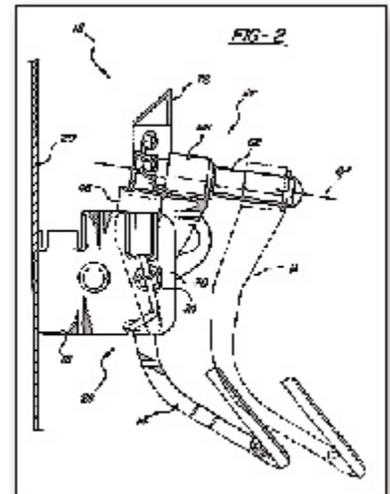
KSR v. Teleflex – The U.S. Supreme Court Provides a Not-So-Obvious Result as It Rejects the Teaching-Suggestion-Motivation Test

Kristy J. Downing and James G. Morrow

The United States Supreme Court rejected the Court of Appeals for the Federal Circuit's teaching-suggestion-motivation (TSM) test in *KSR v. Teleflex*, No 04-1350 (April 30, 2007). In a unanimous opinion written by Justice Kennedy, the Court primarily rejected the TSM test because of its "narrow" scope — essentially obviating a patent only where the prior art taught specific encouragement to combine the prior art in the claimed manner, rather than asking the general question of whether the patentee would have found some predictable benefit in combining the prior art references.

Since, *Graham*, the Federal Circuit has required that the "movant establish some suggestion, teaching or motivation that would have led a person of ordinary skill in the art to combine the relevant prior art teachings in the manner claimed." See *KSR v. Teleflex*, 119 Fed. Appx. 282 at 285, 2886 (Fed. Cir. 2005). Up until now, the TSM test has been heavily indoctrinated into patent law. See MPEP §2142-43.

KSR v. Teleflex originated in the Eastern District of Michigan, where Judge Zatkoff found the Teleflex patent (U.S. Pat. No. 6,237,565) (the '565 patent) invalid by reason of obviousness. *Teleflex Inc. v. KSR Int'l Co.*, 298 F. Supp. 2d 581 (E.D. Mich. 2003). The '565 patent regards an adjustable pedal assembly with electronic throttle control. Claim 4 of the '565 patent — the only claim at issue — requires that the electronic [throttle] control (as shown in FIG – 2) be mounted to the pedal support. The prior art included references teaching pedal assemblies with a pivot wire/cable-linked to throttle controls and references teaching an electronic control mounted to the support bracket using a potentiometer.



The Federal Circuit vacated the district court decision, highlighting the important role the TSM test plays in resisting the temptation to engage in impermissible hindsight while reviewing inventions for obviousness. *at 7a citing In re Dembiczak*, 175 F.3d 994 at 999 (Fed. Cir. 1999)(“This is because ‘[c]ombining prior art references without evidence of such suggestion, teaching, or motivation simply takes the inventor’s disclosure as a blueprint for piecing together the prior art to defeat patentability—the essence of hindsight”).

In rejecting the Federal Circuit’s TSM test, the Court stated that the better question to ask is whether the resulting combination provides a predictable benefit. (“The combination of familiar elements

according to known methods is likely to be obvious when it does no more than yield predictable results.”). The Court found two major faults in the Federal Circuit TSM test: (1) its focus on the problem the patentee was attempting to solve; and (2) “its assumption that a person of ordinary skill attempting to solve a problem will be led only to those elements of prior art designed to solve the same problem.” While the newly articulated test does not endorse obviating patents based on independent knowledge of each of the claimed elements in the prior art, it does broaden the available basis for undermining patentability turning the focus away from the motivations of the patentee/authors of the prior art and towards the “objective reach of the claim” and its predictable advantages.

The Court obviated Claim 4 based on the predictable benefits of making “pre-existing pedals work with new engines” and “tak[ing] an adjustable electronic pedal... and seek[ing] an improvement that would avoid the wire-chafing problem.” In the absence of objective evidence of non-obviousness, the ‘565 patent was found invalid.

With respect to hindsight, the Court stated the TSM test was unnecessary where “common sense” would have encouraged the inventor to combine teachings within the prior art. (“Rigid preventative rules that deny factfinders recourse to common sense ... are neither necessary under our current case law or consistent with it.”).

Microsoft v. AT&T — The Supreme Court Limits the Availability of Damages for Foreign Activity

On April 30, 2007, the U.S. Supreme Court reversed the U.S. Court of Appeals for the Federal Circuit’s split-panel decision in *Microsoft Corp. v. AT&T Corp.*, No. 05-1056. The ruling limits the availability of damages for foreign activity and is of particular interest to the software and biotechnology industries.

Under U.S. patent laws, some activity in foreign countries can give rise to liability for infringement of a U.S. patent:

(1) Whoever without authority supplies . . . from the United States . . . the components of a patented invention . . . in such manner as to actively induce the combination of such components outside of the United States in a manner that would infringe the patent if such combination occurred within the United States, shall be liable as an infringer.

(2) Whoever without authority supplies . . . from the United States any component of a patented invention that is especially made or especially adapted for use in the invention . . . knowing that such component is so made or adapted and intending that such component will be combined outside of the United States in a manner that would infringe the patent if such combination occurred within the United States, shall be liable as an infringer.

35 U. S. C. § 271(f) (emphasis supplied).

AT&T sued claiming that Microsoft was liable for inducing infringement of U.S. patents because foreign computer manufacturers were copying Microsoft Windows onto computers that were then sold for use overseas. In the opinion, the Supreme Court addressed two questions: *First*, can software be a component of a patented invention? *Second*, are foreign-made copies of software supplied from the United States also supplied from the United States?

The Supreme Court answered the first question “Yes.” The Supreme Court determined that the physical embodiment of the software can be a component of the claimed invention. *Microsoft Corp. v. AT&T Corp.*, No. 05-1056, slip op. at 12 (U.S. April 30, 2007). The Supreme Court specifically refused to address the question of whether software, conceived as an abstract set of instructions, can ever be a component of a claimed invention. *Id.* at 12 n.13.

The Supreme Court answered the second question “No.” The Supreme Court determined that copies of software that are made and installed on machines in foreign countries are not components that are supplied from the United States. In answering this question, the Supreme Court rejected the panel majority’s view that the ease of copying software meant that the act of copying was subsumed in the supply process. Instead, the Supreme Court adopted an interpretation of the term “supplies” that is tied to the physical component used in the assembled device. This result has the potential to affect the applicability of § 271(f) in a wide range of cases, especially in biotechnology.

The end result of these holdings is that the installation of software on computers assembled and used outside the United States does not infringe U.S. patents. This means that U.S. patentees who wish to recover damages for such acts will have to rely upon whatever foreign patents they may have and will have to do so in foreign courts.

The decision, however, left unaddressed some of the more provocative issues raised in the briefing and at oral argument. Specifically, the Supreme Court did not address the question of whether or not software in the abstract could be patented. Although this issue was raised by several members of the Supreme Court during argument, it was not squarely presented by this case, and the Supreme Court’s opinion stayed well clear of that difficult issue.

Patent Reform of 2007

Courtenay C. Brinckerhoff

On April 18, 2007, Senator Patrick Leahy (D-Vt.) and Representative Howard Berman (CA-28) introduced bipartisan, bicameral patent reform legislation that would dramatically change U.S. patent law. The changes made by the proposed legislation include (1) moving the United States toward a first-to-file system, (2) limiting patent damages, (3) restricting the definition of willful infringement, (4) providing a new mechanism for post-grant review, and (5) permitting interlocutory appeal of claim construction decisions. While the proposed legislation inevitably will be revised in the legislative process, many believe that in this strong climate for patent reform we should expect at least some of the provisions to become law.

The 50 pages of proposed legislation have many fine points to consider. This article provides highlights of key provisions of general interest. The proposed legislation includes other provisions that may be of particular relevance to a given patent prosecution or litigation strategy.

First-to-File

The proposed legislation would completely rewrite § 102 (novelty), keying the critical date for patentability to the “effective filing date” of the claimed subject matter, as opposed to the date of invention. The only “grace period” would be a one-year period for publications authored by, or derived from, the inventor, persons obligated to assign their work to the same entity as the inventor, or persons working under a joint research agreement. There would be no provision equivalent to current § 102(c) (abandonment); § 102(d) (prior foreign application more than one year before U.S. application); or § 102(g) (interference). The only corollary to current § 102(f) (did not himself invent the subject matter) is found in the proposed “derivation proceedings.” Conforming amendments would repeal § 291 (interfering patents), and other amendments would give the board (which would be renamed the Patent Trial and Appeal Board) discretion either to carry on with pending interferences or to dismiss them without prejudice to the filing of a cancellation proceeding under the proposed post-grant review procedures.

Globalization

The patentability requirements would be globalized, with no preferential treatment given to U.S.-filed versus foreign-filed applications. For example, an “effective filing date” could be established by a foreign application under § 119, even if the application was filed more than one year before the U.S. filing date. Additionally, a prior use or sale anywhere in the world would defeat patentability, whereas currently such activities must occur in the United States. Section § 104 (inventions made abroad) would be repealed.

Limitations on Damages

The damages statute (§ 284) would be amended to limit damages in several respects. A reasonable royalty would be based only on the invention’s “specific contributions over the prior art,” and the basis must not include the economic value of non-patented aspects of the infringing product or process. Likewise, damages could not be based on the entire market value of the infringing product or process, unless the patentee shows that the invention’s contribution over the prior art is the predominant basis for market demand. Additionally, a damages award could take into account the terms of any non-exclusive marketplace licensing of the invention as well as “other relevant factors.”

Willful Infringement

Willful infringement would be restricted to three specified circumstances: (1) where the patentee provided written notice alleging acts of infringement with specificity and the infringer, after a reasonable opportunity to investigate, committed an alleged act of infringement; (2) where the

infringer intentionally copied the patented invention with knowledge that it was patented; or (3) where the infringer engages in conduct that is not colorably different from conduct previously held to infringe.

The provisions expressly would preclude a finding of willfulness where the infringer had an informed good faith belief that the patent was invalid, unenforceable, or not infringed. The statute would define “good faith belief” as being established by reasonable reliance on advice of counsel, evidence of an attempt to modify conduct to avoid infringement, or other suitable evidence satisfactory to a court. A decision not to present evidence of advice of counsel could not be considered when determining willfulness.

The legislation also would change the litigation process for willful infringement allegations. A party could not allege willful infringement until a court has determined that the patent is not invalid, is enforceable, and has been infringed. Additionally, a willfulness determination would be made without a jury.

Reexamination

The reexamination statute would be tweaked to limit the judicial preclusion of a given proceeding to issues that actually were raised during the proceeding, whereas current provisions preclude raising issues that “could have” been raised.

Post-Grant Review

The proposed legislation would create new post-grant review procedures that could be brought by third parties seeking “cancellation” of a patent claim. A cancellation petition could be filed under one of two “windows”: (1) within 12 months of the patent’s issue or (2) under one of three specified circumstances, including a showing of “significant economic harm” caused by the continued existence of the patent claim, a notice alleging infringement, or the patentee’s consent. A cancellation petition would have to identify the real party in interest, and a party would not be able to pursue more than one petition against the same patent. Additionally, a party to an unsuccessful civil action that sought to invalidate a patent claim could not bring cancellation proceedings on any grounds that the party raised or had actual knowledge of during the civil action.

Cancellation proceedings would be conducted by the Board, and the United States Patent and Trademark Office (Patent Office) generally would be required to conclude a proceeding within one year of its institution. The patentee would have an opportunity to respond to the allegations in the cancellation petition, and at least one opportunity to cancel or amend (narrow) the claims. The party advancing a proposition would have the burden of proof under the preponderance of the evidence standard, and the presumption of validity (§ 282) would not apply.

An unsuccessful cancellation petitioner would be precluded from using any ground raised during the proceeding in a reexamination, derivation, cancellation, or civil proceeding against the patent claim(s).

Interlocutory Appeal

The proposed legislation would provide for interlocutory appeal of claim construction decisions. Such an appeal would have to be made within 10 days of the decision, and would stay the district court proceedings.

Effective Date

As currently written, the legislation would apply to all patents issued 12 months after enactment. Thus, filing applications in advance of this date may not provide an avenue to escape the changes. It is likely, however, that at least the changes to § 102 will be applied based on filing date, to avoid changing the examination standards once prosecution has begun.

Congress is not likely to hear from any sector that fully supports all of the proposed reforms. Indeed, testimony at the House Judiciary Committee's hearing suggests that different sectors will support (and oppose) different provisions. However, Congress may determine that the legislation represents a workable compromise that should be enacted to improve the U.S. patent system and strengthen the U.S. economy.

Lexmark v. Static Control: An Update on Copyrights and Competition

John F. Zabriskie

Can a market incumbent use copyrighted expression such as embedded software in a manufactured product to block development of interoperable competing products? In its widely reported decision in *Lexmark Int'l, Inc. v. Static Control Components, Inc.*, 387 F.3d 522 (6th Cir. 2004), the Sixth Circuit seemed to strike a blow for third parties seeking to enter a market. In that case, the Sixth Circuit vacated a preliminary injunction preventing the distribution of a print toner cartridge component that had to contain an exact copy of a small software program copyrighted by the plaintiff in order for the cartridge to be able to be used with the plaintiff's printers. The Sixth Circuit, however, held open the door that more evidence might show copyright infringement. Recently, the district court shut that door. (*Static Control Components, Inc. v. Lexmark Int'l, Inc.*, 5:04-cv-00084-GGVT, Apr. 18, 2007) This ruling is worth studying for what it teaches about the boundary between copyright enforcement and competition.

Background

Lexmark manufactures printers and toner cartridges for the printers. Lexmark's cartridges contained a microchip with a short and simple software program that allowed the printer both to determine how much toner was in the cartridge and to identify the cartridge as one of Lexmark's. Static Control made a microchip with an exact copy of the Lexmark toner program that it sold to other manufacturers so their cartridges would work with Lexmark printers.

Lexmark filed suit claiming infringement of Lexmark's copyright in its toner program and violation of the anti-circumvention provisions of the 1998 Digital Millennium Copyright Act (DMCA). The district court preliminarily enjoined Static Control from distributing its microchip.

On appeal, the Sixth Circuit dissolved the injunction. The Sixth Circuit held that Lexmark had no DMCA claim because the DMCA only protects technological access control measures, and Static Control's microchip did not provide access to Lexmark's toner program but replaced it outright. The Sixth Circuit also found that Lexmark had not demonstrated that its toner program was copyrightable for preliminary injunction purposes, but sent the case back to the district court to decide that question as a final matter based on more facts.

The Recent Ruling and What It Means

After considering additional information about Lexmark's toner program, the district court found no infringement. First, the district court determined that Lexmark's short and simple program did not qualify as an "original" work under the Copyright Act. Lexmark stressed the number of different approaches that could have been used in writing the toner program. The district court was not impressed, finding that most of the alternatives were different methods, which cannot be copyrighted, not different expressions of the same method. The remaining alternatives were impractical or inefficient. In short, the district court's decision drives home the important reminder that merely making choices in creating a work will not guarantee copyright protection.

Second, the district court held that Static Control's copying of the toner program was a permitted "fair use" under the Copyright Act needed to allow interoperability. Initially, the district court focused on the Lexmark toner program's dual roles of measuring toner level and enabling interoperability with Lexmark printers. Because Static Control's purpose in copying only impacted the latter role of permitting interoperability, the district court found fair use, even though Static Control's microchip had a commercial purpose of creating competing cartridges. The district court next examined whether the copying hurt the market for the copyrighted work. Here, the interesting point is how narrowly "market" was defined. The Sixth Circuit had held earlier that the "market" could be for toner programs, not toner cartridges. The district court found no evidence that an independent market for toner programs existed, and thus found fair use. The lesson for copyright holders is to proceed cautiously before attempting to enforce their copyright beyond the copyrighted work itself to associated products or services.

Finally, it is worth remembering that even if copyright law would permit development of an interoperable product, a contract might not. Although *Static Control* did not involve such a contract, products involving software frequently are sold or licensed subject to a contract barring all copying or use to develop a competing product, including reverse engineering. Most courts now enforce these provisions, which effectively waive defenses such as fair use to copyright claims.

FTC and U.S. DOJ Report: Antitrust Limits on the Use of Intellectual Property Rights

Michael G. Halfenger

On April 17, 2007, the Federal Trade Commission (FTC) and the United States Department of Justice (DOJ) issued a joint report, *Antitrust*

Enforcement and Intellectual Property Rights: Promoting Innovation and Competition. The report results from a multi-year effort by the agencies, including two dozen days of hearings and numerous written submissions, to investigate the effects of, and need for, antitrust enforcement in the “knowledge-based economy.”

The report largely reaffirms the principles described in the agencies’ 1995 *Antitrust Guidelines for the Licensing of Intellectual Property (IP Guidelines)*. The agencies acknowledge that most uses of intellectual property (IP) can benefit consumers by enhancing competition, and they announce their intent to apply the rule of reason — an antitrust standard under which an arrangement is unlawful only if its anticompetitive effects outweigh its procompetitive effects — in evaluating most uses of IP. The report is silent on the hot-button issue of antitrust limits on the settlement of patent disputes between brand and generic manufacturers of pharmaceuticals under the Hatch-Waxman Act.

Highlights from the 220-page, six-chapter report include the following:

Unilateral Refusals to License

The report suggests that a single firm’s refusal to license IP rights rarely will be challenged by the antitrust enforcement agencies, stating that “[a]ntitrust liability for mere unilateral, unconditional refusals to license patents will not play a meaningful part in the interface between patent rights and antitrust protections.” The qualifiers are important. Agreements not to license third parties and conditional refusals to license remain areas of potential antitrust liability if they cause competitive harm.

Standard-Setting

The report addresses at length antitrust issues involving standard-setting organizations, an area of continuing agency focus. It concludes generally that licensing terms negotiated before standard setting occurs can be procompetitive and thus are unlikely to be viewed as automatic antitrust law violations. Although the agencies declare that they will evaluate under the rule of reason license terms negotiated ex ante, they “take no position” on whether standard-setting organizations should engage in prospective licensing discussions.

Cross-Licensing and Patent Pools

The agencies will adhere to the *IP Guidelines*’ approach to cross-licensing and patent pools. In particular, they will “typically” analyze both types of agreements under the rule of reason. They recognize that cross-licensing of complementary patents is “generally” procompetitive, and announce that “[i]ncluding substitute patents in a pool does not make the pool presumptively anticompetitive.” Competitive effects, the agencies’ touchstone in this area, “will be ascertained on a case-by-case basis.” The agencies “generally” will not address the reasonableness of the royalty set by a pool.

Tying, Bundling, and Other Licensing Practices

The report addresses a variety of specific licensing practices, including non-assertion clauses, grantbacks, reach-through royalty agreements, tying, and bundling. Consistent with the agencies’ *IP Guidelines*, the report generally concludes that the agencies will apply the rule of reason in analyzing these practices.

Agreements Extending Beyond the Patent’s Term

The report takes the view that the prohibition on collecting royalties beyond a patent’s term, a prohibition created by the Supreme Court in *Brulotte v. Thys Co.*, 379 U.S. 29 (1964), has no economic or antitrust basis. To the contrary, the report explains, agreements providing for post-expiration royalties or that bundle patents with trade secrets may be efficient licensing terms that promote innovation and increase consumer welfare. In evaluating these practices, the agencies will first analyze whether the patent confers market power and, if so, apply the rule of reason’s competitive effects analysis, unless the arrangement is merely a cover for price fixing or market allocation.

Summary Judgment Affirmed for Foley Client United Online

On February 20, 2007, the Court of Appeals for the Federal Circuit in Washington, D.C. affirmed a grant of summary judgment of non-infringement for Foley client United Online, Inc. in the patent troll case, *MyMail, Ltd. v. America Online, et al.*

Foley Los Angeles attorney William J. (Bill) Robinson and attorney Ronald Coslick represented defendants NetZero, Juno, and NetBrands against “patent troll” MyMail. A patent troll is a company that owns patents but does not have any products and makes money by suing others using its patents. In the original complaint filed in April 2004, MyMail alleged that its patent covered the basic processes used by dial-up service providers to connect their customers to the Internet, and they sought an injunction to shut down NetZero’s, Juno’s, and NetBrand’s Internet service provider (ISP) service as well as damages of \$75 million. In an effort to expedite the litigation, NetZero, Inc, Juno Online Services, Inc, and NetBrands, Inc consolidated their litigation under the name UOL (United Online, Inc.) and jointly addressed the complaint.

The Foley team’s aggressive defense dismantled MyMail’s case, leading the court to grant summary judgment against all of MyMail’s infringement claims. The court ruled that “the patent does not support MyMail’s argument” and that “logic does not support MyMail’s position.”

This case is one of the few instances in which defendants have prevailed on summary judgment in a patent lawsuit in the Eastern District of Texas (EDTX), which is viewed as a plaintiff-friendly district. Companies do not like to be sued in EDTX because of its plaintiff-

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friendly reputation, and that fear has been exploited by plaintiffs, particularly patent trolls, to extract large settlements from defendants. This victory shows that defendants can win in EDTX.

SPOTLIGHT ON: Ybet Villacorta



Dr. Gilberto "Ybet" (pronounced "e BET") Villacorta joins Foley's Washington D.C. office as a partner in its Biotechnology & Pharmaceutical, Electronics, and Intellectual Property (IP) Litigation

Practices. Most recently with Katten Muchin Rosenman LLP, he describes himself as a scientist, an inventor, a lawyer, a counselor, and a businessman.

After obtaining both a B.S. and M.A. from Rutgers University, and while pursuing a Ph.D. in inorganic chemistry at the Massachusetts Institute of Technology, Ybet invented a clamp for use in the lab. In prosecuting that patent, he developed an interest in IP law, which eventually led him to law school and, ultimately, to Foley.

Ybet has come a long way from prosecuting his own lab-clamp invention, not least of which included prosecuting the Roslin Institute's application for a patent on cloning methods and the resultant cloned animals known to many simply as "Dolly" and her cousin "Magic" the famous sheep. The path from inventor to attorney was not linear. His professional path has been and continues to be multidimensional – as scientist with AT&T Bell Labs; as philanthropist, establishing a fund at Rutgers University to help chemistry professors push discoveries from concept to development; and as businessman, viewing his clients' legal problems not from a lawyer's perspective necessarily but from a deal maker's point of view. Ybet hopes to establish a private equity fund some day, perhaps when his legal career is over.

Given the diversity of his background, it is not surprising that Ybet's practice, too, runs the gamut, including:

- Planning, development, and maintenance of patent and trademark portfolios
- Licensing, marketing, and product development negotiations and the resulting agreements
- Due diligence investigations in connection with mergers, acquisitions, and financing
- Patentability, registerability, peer review, market assessment, validity and infringement opinions
- Enforcement and litigation

Ybet — a nickname he got from his sister when he was three years old — is as down-to-earth as they come. He has been recognized as a Leading Intellectual Property Lawyer by the *Legal Times* and a Top Washington Lawyer by the *Washington Business Journal* and *Washingtonian Magazine*. However, rather than point to degrees or accolades as his greatest assets, he notes that his greatest strength as an IP lawyer and counselor is his ability "to translate very technical notions into easily understandable language."