

# Intellectual Property Newsletter



## The *en banc* Court Speaks On Divided Infringement, But Not With One Voice.

*Adam Conrad*

*Akamai Technologies, Inc. v. Limelight Networks, Inc. and McKesson Technologies, Inc. v. Epic Systems Corp.* (Fed Cir, *en banc* 2012).

<http://www.cafc.uscourts.gov/images/stories/opinions-orders/09-1372-1380-1416-141710-1291.pdf>

Prior to the recent *en banc* decision on divided infringement of method claims, the court had adopted a “single-entity rule,” under which no liability for direct infringement would be found unless a single actor performed all steps of a method claim or multiple participants performed the steps as part of a contract or agency relationship that is directed or controlled by a single “mastermind.” As a result of the rule, induced infringement under 35 U.S.C. § 271(b) required a predicate act of direct infringement by a single entity, in this case, two or more parties operating under some type of a formal arrangement.

The court in *Akamai*, by a slim 6-5 majority, took divided infringement in a new direction. The court overruled the single-entity rule and held that cases of divided infringement can be treated as induced infringement under section 271(b). Under the new interpretation, it is sufficient to show that the inducing party knew of the claimed method and either induced others to perform the entire method or induced others to perform whatever steps the inducer itself did not perform. In that case, the inducing party alone will be liable for infringement,

## October 2012

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Bill Abrams (Silicon Valley) serves on the Advisory Board of the Center for the Legal Profession at Stanford Law School, and will be moderating a discussion with Steve Harper of Northwestern Law School on October 1 on large law firm management.

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and it is not necessary to show that the third party or parties required to complete the infringing activity had any contractual or agency relationship with each other or with the inducing party.

The majority's approach simplifies the patentee's task in proving liability for divided infringement, and allows for actions against infringers that would not have been possible under the single-entity rule.

In the eyes of four dissenting judges, however, those advantages do not justify abandoning the single-entity interpretation of 35 U.S.C. § 271(a). A second dissent from Judge Newman attempts to solve the "single-entity rule" in a more basic way. She would restore infringement under either § 271(a) or § 271(b) "to its status as occurring when all of the claimed steps are performed, whether by a single entity or more than one entity, whether by direction or control, or jointly, or in collaboration or interaction."

## Can Recent Conflicting Decisions On the Patent Eligibility of Business Methods Be Reconciled?

*Peter Dehlinger*

*CLS Bank International v. Alice Corporation PTY, LTD* (Fed Cir 2012);

<http://caselaw.findlaw.com/us-federal-circuit/1605572.html>

*Bancorp Services, LLC v. Sun Life Assurance Company of CA* (Fed Cir. 2012).

<http://www.cafc.uscourts.gov/images/stories/opinions-orders/11-1467.pdf>

Two recent business-method cases from the CAFC give conflicting guidance on how computer-aided process inventions should be viewed under §101. The inventions in both cases are business methods aimed at minimizing risk in financial transactions; a computer plays a similar role in both methods; and the court applied the same "machine" prong and the

"abstract idea" tests in both analyses. Despite these similarities, the court found the business method in *CLS Bank* to be patent eligible, but disqualified the invention in *Bancorp Services* under §101.

Can the conflicting decisions be reconciled, or should the court have arrived at the same result in both cases? A possible answer is suggested by *CyberSource Corp. v. Retail Decisions, Inc.*, 654 F.3d 1366, 1375 (Fed. Cir. 2011), where the court relied on the "mental processes" exclusion to disqualify the business-method invention at issue. The "mental processes" exclusion finds ample support in Supreme Court decisions on §101 issues, but has receded in importance in the post-*Bilski* era. It's an easy exercise to show that the claimed business methods in both *CLS Bank* and *Bancorp Services* can be carried out by mental processes alone, disqualifying both business methods under §101.

## Two More Post-Therasense Cases On Alleged Inequitable Conduct, Two More Nails in the Coffin.

*John Harbin*

*Golden Hour Data Systems, Inc. v. emsCharts, Inc., et al.*, (E.D. Tex. 2012);

<http://law.justia.com/cases/federal/district-courts/texas/txedce/2:2006cv00381/98885/386>

*I<sup>st</sup> Media v. Electronic Arts*, (Fed. Cir. 2012).

<http://www.cafc.uscourts.gov/images/stories/opinions-orders/10-1435.pdf>

The patentee in *Golden Hour*, failed to submit a brochure that described features of the claimed invention, initially rendering the asserted patent unenforceable for inequitable conduct. On rehearing, post-*Therasense*, the Circuit Judge reversed the earlier decision, reasoning that the claimed method required a significant body of programming effort that, under Federal Circuit

standards, could not be enabled by a mere bullet-point brochure. Since the brochure lacked enablement, it would not have affected the PTO's decision to grant the claims in issue under the *Therasense* 'but-for' test.

And in *1<sup>st</sup> Media*, the Federal Circuit drove another nail in the coffin. The patent-at-issue was one of a family of patents prosecuted around the world. The district court found inequitable conduct based on the failure of the inventor and patent attorney to cite three references in the U.S. prosecution that had resulted in rejection of foreign applications. Although the district court found the patentee's explanations unpersuasive, the Federal Circuit held that the evidence did not meet the high "deliberate decision to withhold" standard of *Therasense*. The infringer bears the burden of proving such a deliberate decision by clear and convincing evidence, the court held, and the proof cannot be inferred from knowledge and materiality. "[I]t is not enough to argue carelessness, lack of attention, poor docketing or cross-referencing, or anything else that might be considered negligent or even grossly negligent."

## **Patentee Seeking Broadening Reissue Bitten By the Recapture Doctrine.**

*Peter Dehlinger*

*Greenliant Systems, Inc. v. XICOR LLC.*, (Fed. Cir. 2012).

<http://caselaw.findlaw.com/us-federal-circuit/1609893.html>

The claim limitation at issue in a broadening reissue was a product-by-process limitation that in the original patent reads: said silicon dioxide layer being *formed by low pressure chemical vapor deposition comprising the use of tetraethylorthosilicate [TEOS].* The claims in the reissue application omitted the *comprising the use*

*of [TEOS]* limitation, but otherwise duplicated claims 1 and 4 of the parent patent.

The court found the broadened claims invalid under the recapture doctrine, particularly in view of statements made by and to the Board of Appeals in the original patent. The patentee's "arguments clearly and unmistakably represented to the examiner and the Board that TEOS was a necessary component of the deposition process that imparted the distinct structural characteristics upon [the applicant's] claimed tunneling oxide layer." The fact that the arguments were made was sufficient to result in surrender; it didn't matter that the PTO may not have relied on the arguments in issuing the patent or that the applicant's arguments may have been wrong.

## **If It doesn't Compute, You Must Refute. How Not to Calculate Infringement Damages.**

*John Harbin and Joseph Eng*

*Whitserve, LLC v. Computer Packages, Inc.*, (Aug. 7, 2012);

[http://caselaw.findlaw.com/us-federal-circuit/1609206.html?DCMP=NWL-pro\\_ip](http://caselaw.findlaw.com/us-federal-circuit/1609206.html?DCMP=NWL-pro_ip)

*Laserdynamics, Inc. v. Quanta Computer, Inc., et al.*, (Fed. Cir. 2012).

<http://www.cafc.uscourts.gov/images/stories/opinions-orders/11-1440-1470.pdf>

In a split decision in *Whitserve, LLC*, the Federal Circuit affirmed the judgment of infringement but vacated and remanded for a new damages trial, continuing a trend of closer scrutiny of patent damages awards. The patentee improperly based its royalty rate on a proposed, but unaccepted, license; and used two lump sum licenses without explaining how to derive a royalty rate from them. The court found that the analysis of the *Georgia Pacific* royalty factors by the patentee's damages expert



was insufficient, because the expert “did not explain how much each factor affected the rate .... Expert witnesses should concentrate on *fully* analyzing the *applicable* factors, not cursorily reciting all fifteen. And, while mathematical precision is not required, some explanation of both why and generally to what extent the particular factor impacts the royalty calculation is needed.”

A few weeks later, on August 30, the Federal Circuit continued this stricter scrutiny. In *Laserdynamics, Inc.*, the court considered a patent concerning an optical disc discrimination method used in laptop computers. With respect to whether a feature drives demand for an entire product, such that the entire market value rule would apply, the court held that:

It is not enough to merely show that the disc discrimination method is viewed as valuable, important, or even essential to the use of the laptop computer. Nor is it enough to show that a laptop computer without an ODD practicing the disc discrimination method would be commercially unviable. Were this sufficient, a plethora of features of a laptop computer could be deemed to drive demand for the entire product. *Id.*, pp. 25, 26.

The court further observed that "it is generally required that royalties be based not on the entire product, but instead on the 'smallest salable patent-practicing unit.'" (Quoting *Cornell Univ. v. Hewlett-Packard Co.*, 609 F. Supp. 2d 279, 283, 287-88 (N.D.N.Y. 2009)). *Laserdynamics, supra.* at p. 23. Finally, the court rejected the 6% royalty rate proffered by the patentee's expert because it "was untethered from the patented technology at issue and the many licenses thereto and, as such, was arbitrary and speculative."

## Potential subject matter constraints on the grace period in 35 U.S.C. 102(b)(1)(B) of the AIA.

*Peter Dehlinger*

Section 102(b) of the American Invents Act provides two exceptions to prior-art provisions of 102(a)1: A disclosure made 1 year or less before the effective filing date of a claimed invention shall not be prior art to the claimed invention under subsection (a)(1) if--

‘(A) the disclosure was made by the inventor or joint inventor or by another who obtained the subject matter disclosed directly or indirectly from the inventor or a joint inventor; or

‘(B) the subject matter disclosed had, before such disclosure, been publicly disclosed by the inventor or a joint inventor or another who obtained the subject matter disclosed directly or indirectly from the inventor or a joint inventor.

Under the interpretation of §102(b)1(B) proposed in the USPTO *Examination Guidelines for Implementing the First-to-File Provisions of the AIA*, <http://www.gpo.gov/fdsys/pkg/FR-2012-07-26/pdf/2012-17898.pdf> (published July 26, 2012),

the subject matter in the prior disclosure being relied upon under 35 U.S.C. 102(a) [must] be the same “subject matter” as the subject matter publicly disclosed by the inventor before such prior art disclosure for the exception in 35 U.S.C. 102(b)(1)(B) to apply. Even if the only differences between the subject matter in the prior art disclosure that is relied upon under 35 U.S.C. 102(a) and the subject matter publicly disclosed by the inventor before such prior art disclosure are mere insubstantial changes, or only trivial or obvious variations, the exception under 35 U.S.C. 102(b)(1)(B) does not apply.

This interpretation leaves little “grace” in the 1-year grace period. An applicant will be able to overcome

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a later prior-art publication only as to subject matter that was specifically disclosed in its earlier disclosure. Thus, if the applicant discloses A, B, and C within a year of filing, and a later, pre-filing references discloses A, B, C, and D, a claim to A, B, C, and D, would presumably fail under 102(a)(1).

The rule, though harsh, is analogous to current practice in the EPO on subject matter support in a claimed priority document: Unless each limitation of a claim in an application finds support in the priority document, the claim will lack novelty over an intervening reference that discloses all of the claim limitations.

## **PCT changes resulting from the AIA.**

[http://www.wipo.int/edocs/pctndocs/en/2012/pct\\_news\\_2012\\_09.pdf](http://www.wipo.int/edocs/pctndocs/en/2012/pct_news_2012_09.pdf)

Link to a PCT bulletin on changes for applicants as a result of the America Invents Act, effective Sept 16, 2012. The bulletin considers the new request and demand forms, modified wording for Administrative Instructions, modified Receiving Office guidelines, and changes regarding ePCT.

## **Recent Clean-Energy Patents.**

[http://www.renewableenergyworld.com/rea/blog/post/2012/08/clean-energy-patents-at-quarterly-high-1st-quarter-clean-energy-patent-growth-index?goback=%2Egde\\_36507\\_member\\_149032989](http://www.renewableenergyworld.com/rea/blog/post/2012/08/clean-energy-patents-at-quarterly-high-1st-quarter-clean-energy-patent-growth-index?goback=%2Egde_36507_member_149032989)

Link to a Clean Energy Patent Growth Index (CEPGI) report on numbers and types of recent clean-tech patents, and companies leading in patent filings.

## **People in the News: Boyd Cloern, Bill Abrams, Katie McCarthy.**

Boyd Cloern

[http://www.kslaw.com/News-and-Insights/NewsDetail?us\\_nsc\\_id=5924](http://www.kslaw.com/News-and-Insights/NewsDetail?us_nsc_id=5924)

Bill Abrams

[http://www.kslaw.com/News-and-Insights/NewsDetail?us\\_nsc\\_id=5819](http://www.kslaw.com/News-and-Insights/NewsDetail?us_nsc_id=5819)

Katie McCarthy

[http://www.kslaw.com/News-and-Insights/NewsDetail?us\\_nsc\\_id=5925](http://www.kslaw.com/News-and-Insights/NewsDetail?us_nsc_id=5925)

## **Trial News: Google v. Oracle.**

[http://www.kslaw.com/News-and-Insights/NewsDetail?us\\_nsc\\_id=5737](http://www.kslaw.com/News-and-Insights/NewsDetail?us_nsc_id=5737)

## **Quiz, Identify the IP Case in Rap Disguise.**

[Petitioner]

They call me a trader but I'm no Iscariot  
Don't look for risk 'cause I don't carry it  
I'm the prophet of profits with a fat bottom line  
No blowing smoke, no joke, just outshinin'  
The secret sauce is on my computer  
Running toot suite and the tooter the sweeter  
I'm betting short that the magic survives  
Betting the court doesn't take out its knives

[Court majority]

Bet if you must, just don't forget  
The Fed Circ's M-o-T alphabet  
Not that we agree with the M-o-T  
That case-law debris makes us nervous  
Does a disservice to what we intended  
Too many times when you have to bend it  
Keep it simple and if you can stomach exclusion  
It takes no Rumpole to reach the conclusion

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An abstract idea just ain't gonna do it  
(Please don't ask us how to construe it)

[Court minority]  
That's nice work, the M-o-T trashing  
The Fed Circ deserved a good thrashing  
On that news flash we all agree  
But not that rash abstract idea  
Talk about wack (we call it like we see it)  
The world was waiting for a pot to, you know...  
You gave us squat, and the pot went missin'  
Not for us, this false demeanor

Thomas Jefferson is our guillotiner  
Patents and business tricks just don't mix  
Has nothing to do with mathematics

Hint: case mentioned in second News item above.

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