



# PATENT HAPPENINGS

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

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## JUDICIAL HAPPENINGS

### Willfulness Claim Summarily Dismissed

*Abbott Labs. v. Sandoz, Inc.*, No. 05 C 5373, 2007 WL 4287503, \*3-\*4 (N.D. Ill. Dec. 4, 2007), provides a telling example of the challenges patentees now face under *In re Seagate* in proving willful infringement.<sup>1</sup> In *Abbott*, the court granted an accused infringer’s motion to dismiss a patentee’s willful infringement claim under Rule 12(b)(6), or in the alternative as a judgment on the pleadings under Rule 12(c), based on the accused infringer’s reliance on a Federal Circuit opinion rendered in another suit in which the Federal Circuit concluded that substantial questions existed

<sup>1</sup> *In re Seagate Technology*, 497 F.3d 1360 (Fed. Cir. 2007) (*en banc*); see generally, Robert A. Matthews, Jr., 5 Annotated Patent Digest [hereinafter APD] § 31:20.50 “Objective Recklessness” Standard of *Seagate*

regarding the validity of the asserted patent. The court held that such reliance precluded the patentee from being able to show that the accused infringer’s actions were “objectively reckless.”

In prior suits, the patentee had successfully obtained preliminary injunctions enjoining several accused infringers. In an opinion referred to as the *Teva* opinion, the Federal Circuit had vacated one of those preliminary injunctions on the basis that it found that substantial questions existed as to the patent’s validity.<sup>2</sup> Early in the litigation against Sandoz, the district court had denied the patentee’s motion for a temporary restraining order in view of the *Teva* opinion.<sup>3</sup> But subsequently, the court granted the patentee a preliminary injunction where the patentee came forward with additional evidence to rebut the showing of invalidity.<sup>4</sup>

In its motion to dismiss, Sandoz argued that, if it infringed, its infringement could not be willful since it relied on the Federal Circuit’s *Teva* opinion before it launched its product. The district court agreed with Sandoz that the patentee could not demonstrate that Sandoz’s actions were done with an objectively high risk of infringement in view of the *Teva* opinion. The court rejected the patentee’s contentions that Sandoz was reckless in relying on the *Teva* opinion since the opinion was only an appeal of an interlocutory order and did not conclusively establish that the claims of the patent were invalid. The district court noted that an absolute finding of invalidity is not required to avoid willful infringement. It stated:

As *Seagate* explains, when determining objective recklessness, the focus is on the *likelihood* that an infringer’s actions constitute infringement of a valid

<sup>2</sup> *Abbott Labs. v. Andrx Pharm., Inc.*, 452 F.3d 1331 (Fed. Cir. 2006)

<sup>3</sup> *Abbott Labs. v. Sandoz, Inc.*, No. 05 C 5373, 2006 WL 3718025, \*2 (N.D. Ill. Dec. 15, 2006).

<sup>4</sup> 2007 WL 1141635, \*33 (N.D. Ill. April 16, 2007).

patent. In the area of patent infringement, a showing of objective reasonableness (which negates the existence of recklessness) does not require that the would-be infringer know conclusively, i.e.-with one hundred percent certainty, that his actions are legitimate. Instead, the infringer need only show there was a reasonable basis for him to believe his actions were legitimate. Thus, the *Teva* decision did not have to be final and conclusive for Sandoz to rely on it as a reasonable basis for concluding its actions did not constitute infringement of a valid '718 patent.

*Id.* at \*3.

The patentee further argued that once the district court had issued the preliminary injunction enjoining Sandoz, any further reliance by Sandoz on the *Teva* opinion was improper, and therefore Sandoz's continuing acts of infringement constituted willful infringement. Relying on prior Federal Circuit cases holding that an accused infringer does not necessarily engage in willful infringement by continuing to sell its products while simultaneously defending itself in an infringement suit, the district court rejected the patentee's contention. The court explained that "case law also provides that a party may continue to manufacture and market an allegedly infringing product while it presents what in good faith it believes to be a legitimate defense without risk of being found on that basis alone a willful infringer. In sum, the ability of an infringer to demonstrate a reasonable basis for her belief that her actions did not infringe upon a valid patent is not magically eviscerated by time." *Id.* at \*4.

Since the court concluded that no other evidence, including later opinions from the Federal Circuit, showed that it was unreasonable for Sandoz to conclude that a substantial question of validity existed in view of the *Teva* opinion, the court granted Sandoz's motion to dismiss the willful infringement claims.<sup>5</sup>

<sup>5</sup> It bears mentioning that in another opinion issued the same day, the district court denied the patentee's motion for summary judgment seeking to dismiss the accused infringer's obviousness defenses based on a first prior art reference, while granting summary judgment dismissing obviousness arguments based on other prior art references. 2007 WL 4287501, \*20 (N.D. Ill. Dec. 4, 2007). Although the district court did not rely on its denial of summary judgment as to one aspect of the accused infringer's invalidity defenses in its opinion on the willful infringement issue, the denial of summary judgment suggests that a substantial question of invalidity remained, which arguably further justified dismissing the willful infringement claim. See *Seagate*

### **KSR Requires More than Predictability**

The district court in *Depuy Spine, Inc. v. Medtronic Sofamor Danek, Inc.*, 2007 WL 4305933, \*6 (D. Mass. Dec. 11, 2007), rejected an accused infringer's argument that under *KSR*, obviousness of a claimed invention is shown if all the elements of the claimed invention are found in the prior art and a person having ordinary skill in the art ("PHOSITA") would have been able to predict that the proposed combination of prior art elements would be successful. According to the court, such a standard erroneously fails to consider whether the PHOSITA would have ever been motivated to make the proposed combination in the first place. Noting that the Supreme Court in *KSR* stated that the motivation-suggestion-teaching test captured a "helpful insight," the district court concluded that a challenger to a patent's validity must present some proof of a motivation to combine the prior art references as done in the claimed invention. In view of its rejection of the contention that predictability alone shows obviousness, the district court also rejected the accused infringer's further contention that under *KSR* a combination of old elements must produce some new or unexpected results to be patentable. Applying its view of *KSR*, the district court ruled that merely because a proposed hypothetical claim may have been a predictable combination of prior art elements, that did not sufficiently prove obviousness to support a noninfringement defense that the scope of equivalents the patentee asserted ensnared the prior art.

The district court's reasoning appears to give effect to the requirement set forth in *KSR* that an accused infringer show some "apparent reason" for a PHOSITA to make the combination.<sup>6</sup> It also appears consistent with the Federal Circuit's analysis of the issue in

*Technology*, 497 F.3d at 1371 (noting that the "objectively-defined risk" of infringement must be "determined by the record developed in the infringement proceeding"); cf. *Bill Johnson's Restaurants, Inc. v Nat'l Labor Relations Board*, 461 U.S. 731, 749 n.15 (1983) (in determining whether claim is objectively baseless, for purposes of sham litigation, a court must give "careful consideration" to the fact that the party's claim survived a motion for summary judgment).

<sup>6</sup> *KSR Int'l Co. v. Teleflex Inc.*, 127 S. Ct. 1727, 1740-41 (2007) ("Often, it will be necessary for a court to look to interrelated teachings of multiple patents; the effects of demands known to the design community or present in the marketplace; and the background knowledge possessed by a person having ordinary skill in the art, all in order to determine whether *there was an apparent reason* to combine the known elements in the fashion claimed by the patent at issue.") (emphasis added)

*Takeda Chem. Indus., Ltd. v. Alphapharm Pty., Ltd.*, 492 F.3d 1350, 1356-57 (Fed. Cir. 2007), where the court held that “in cases involving new chemical compounds, it remains necessary to identify some reason that would have led a chemist to modify a known compound in a particular manner to establish prima facie obviousness of a new claimed compound.” Additionally, the Federal Circuit has also instructed that to prove obviousness “the burden falls on the patent challenger to show by clear and convincing evidence that a person of ordinary skill in the art would have had *reason to attempt* to make the composition or device, or carry out the claimed process, and would have had a reasonable expectation of success in doing so.” *PharmaStem Therapeutics, Inc. v. ViaCell, Inc.*, 491 F.3d 1342, 1360 (Fed. Cir. 2007) (emphasis added).

**Corroboration of Operability**

Addressing application of the “rule of reason” to corroborating a reduction to practice, the Federal Circuit held in *In re Garner*, No. 2007-1221, 2007 WL 4246146, \*4 (Fed. Cir. Dec. 5 2007), that a declaration from a witness attesting to the witness’s observation of a prototype of the invention in the junior party’s laboratory as of a certain date did not sufficiently corroborate the alleged reduction to practice of the invention. Noting that an actual reduction to practice requires that the invention work for its intended purpose,<sup>7</sup> the court held that the failure to mention in the declaration any testimony that the witness saw the device successfully operate was fatal to the declaration’s usefulness as corroborating evidence of an actual reduction to practice. While the declaration may have corroborated the existence of a device purportedly shown in the photographs, the court held that “corroboration of the existence of the device is not sufficient in this case to establish corroboration of reduction to practice. It is also necessary to corroborate that the device worked for its intended purpose.” *Id.* at \*4.

Notably, the invention at issue in *Garner* related to an apparatus for catalyzing a reaction on a substrate by redirecting light on the substrate to catalyze a reaction. Hence, it seems clear that the invention was not a simple mechanical device whereby just seeing the invention one could tell that it would work for its

<sup>7</sup> See generally, APD § 26:38 Reduction to Practice Must Show Invention Meets Intended Purpose.

intended purpose.<sup>8</sup>

**Revival Properly Refused**

Addressing the standard of an “unavoidable delay” for reviving a lapsed patent in *Millman v. U.S.P.T.O.*, No. 2007-1403, 2007 WL 4245782 (Fed. Cir. Dec. 5, 2007) (*nonprecedential*), the Federal Circuit upheld the PTO’s denial of a revival petition since patentee failed to show its delay in not timely paying the required maintenance fee was unavoidable. After terminating his relationship with patent counsel, the patentee had placed his patent and related documents in storage and forgot about them until almost four years after the first maintenance fee was due. The patentee did not retrieve the patent until it was pursuing a second patent in the PTO. Concluding that the patentee’s conduct did not show the type of actions a “prudent and careful man” would give to “his most important business” items, the delay was not unavoidable, and the PTO, therefore, denied the revival petition. The Federal Circuit affirmed. It held that the patentee had failed to prove that its delay met the standard of an “unavoidable” delay since placing a patent in a storage facility and forgetting about it for a period of years did not show prudent and careful acts. *Id.* at \*3. The court also rejected the patentee’s argument that by filing a second patent application the patentee somehow showed an intent to pay the maintenance fees for the lapsed patent, which should excuse its delay. The court held that “[u]navoidability requires at least an *attempt* to comply, not merely an intent to comply.” *Id.* at \*4. Because the patentee made no such attempt until four years after the patent had expired, the PTO’s denial of the revival petition was not “arbitrary, capricious, an abuse of discretion, or otherwise not in accordance with law.” *Id.*

The patentee further argued that denial of its revival petition deprived the patentee of property without due process. The Federal Circuit rejected this argument too. It instructed that “[d]ue process in self-executing statutes such as section 41(c) does not require notice of an imminent lapse of a right through a failure of the owner to act.” *Id.* at \*3. The court further noted, that in any event, the PTO had provided notice to the patentee that its property right would

<sup>8</sup> See APD § 26:42 Testing to Demonstrate Operability (“If the invention is simple and the purpose and efficacy of the device is obvious, then mere construction of the invention may suffice to demonstrate its workability without testing, and thus, also establish its reduction to practice.”)

expire if he failed to pay maintenance fees via the maintenance fee schedule listed on the inside cover of the issued patent.<sup>9</sup> *Id.*

### **Denying Injunctive Relief in § 146 Action**

The district court in *Vas-Cath, Inc. v. Curators of Univ. of Mo.*, No. 05-0400-CV-W-GAF, 2007 WL 4287865, \*3-\*4 (W.D. Mo. Dec. 6, 2007), held that in a § 146 action reviewing a decision rendered by the Board of Patent Appeals and Interferences, a plaintiff who lost the interference may not seek preliminary injunctive relief to prevent the defendant from proceeding with the patent rights it vindicated in the interference. Granting the defendant's Rule 12(b)(6) motion to dismiss the claims seeking injunctive relief for failing to state a claim upon which relief could be granted, the district court held that the injunctive remedy requested by the plaintiff was outside the scope of § 146. The court explained that the "Plaintiff cannot now re-litigate its claims by seeking injunctive relief, rather it is bound, absent meeting its burden to show the extraordinary circumstances . . . , to accept this Court's affirmance or reversal of the BPAI's decisions based primarily on the issues litigated before that body. In sum, Plaintiff has the right to appeal the BPAI's decision under §§ 141 or 146 but not the right to seek extraordinary injunctive relief based solely on the ground that it disagrees with the BPAI's resolution of its dispute. As such, it would be inappropriate for this Court to grant relief under Plaintiff's request for injunctive relief."

### **Indemnification under the UCC**

Accused infringers do not lose their potential claims of indemnification by denying infringement when answering a patentee's infringement complaint, so held the court in *Phoenix Solutions, Inc. v. Sony Elecs., Inc.*, No. C 07-2112 MHP, 2007 WL 4287546, \*2-\*4 (N.D. Cal. Dec. 6, 2007). In *Phoenix*, the accused infringer, Sony, after denying infringement in its answer to the patentee's complaint, asserted a third-party complaint against its supplier seeking indemnification for the accused infringement. Sony based its indemnification claim under § 2-312(3) of the

<sup>9</sup> *Millman* only addresses whether circumstances show an unavoidable delay. It does not address the issue of whether the PTO can revive an abandoned application or patent for an unintentional delay as at issue in the appeal of *Aristocrat Technologies Australia Pty Ltd. v. Int'l Game Technology*, 491 F. Supp. 2d 916, 929-30 (N.D. Cal. June 13, 2007); see generally APD § 16:3.50 Reviving Abandoned Applications and Challenges Thereto.

Uniform Commercial Code as it was adopted in the relevant states. The supplier filed a Rule 12(b)(6) motion to dismiss the indemnification claims on four grounds; all of which the district court rejected.

First, the supplier argued that by denying the patentee's infringement allegations, Sony was precluded from asserting an indemnification claim since it had taken a position that there was no infringement. The court rejected this argument. It held that a rule requiring an accused infringer to choose between admitting infringement to preserve a right of indemnity or to deny infringement and lose all right of indemnity "would create an onerous burden on defendants such as Sony, who are sued for patent infringement for the use of another's technology." Noting that the Federal Rules of Civil Procedure permit alternative pleading, the court held that it was proper for Sony to allege that the supplier's technology gave rise to a colorable claim of patent infringement for the indemnification claim while concurrently denying the ultimate merits of the patentee's infringement claim asserted against its accused products.

As to the second ground, the supplier argued that the indemnification claim was not ripe. It contended that Sony had to wait until it was adjudicated to have infringed before Sony could proceed with the indemnification claim. Relying on the UCC comments to § 2-312(3), which instruct that "the buyer's remedy arises immediately upon receipt of notice of infringement," the court dismissed the supplier's ripeness argument.

Relying on a stipulation the supplier obtained from the patentee that the supplier's product standing alone did not infringe, and that the patentee was not accusing the supplier's software of infringement, the supplier argued, as its third basis for dismissal, that the court had to find that since its products by themselves did not infringe, there was no basis to assert a right of indemnity. Concerned with the possibility of collusion between the patentee and the supplier, the court ruled that a factual dispute existed as to whether the supplier's product was infringing, which could not be resolved on a motion to dismiss. The court instructed that while a patentee is "free to choose its theories of infringement" it "cannot, however, choose which products actually infringe."

For the final ground of dismissal, the supplier argued that Sony had not provided it with notice of the potential infringement claim "within a reasonable

time” after receiving notice of the litigation as required by § 2-607 of the UCC. Pointing to the detailed presuit and post suit correspondence regarding the patentee’s infringement claims between Sony and the supplier, which Sony attached to its third-party complaint, the court ruled that the Sony adequately pled that it gave the supplier notice of the infringement charges within a “reasonable time” of learning of the litigation.

### **Discovery From In-house Counsel**

After remand from the *en banc* opinion in *In re Seagate*, the district court in *Convolve, Inc. v. Compaq Computer Corp.*, 2007 WL 4205868, \*3-\*6 (S.D.N.Y. Nov. 26, 2007), denied the patentee’s motion for further discovery regarding communications the accused infringer’s in-house counsel may have had with the accused infringer. Applying the reasoning from *Seagate* that opinions obtained after the commencement of an infringement suit have “marginal value,” the district court concluded that any post-litigation communications the in-house counsel may have had with the accused infringer were not discoverable. The court further instructed that, after *Seagate*, the patentee was only entitled to discovery of “prelitigation communications relating to the opinions of in-house counsel upon which the defendants now rely in connection with their advice of counsel defense.” *Id.* at \*6.

## **ADMINISTRATIVE HAPPENINGS**

### **OMB Approves PTO’s Proposed New IDS Rules**

On December 10, 2007, the Office of Management and Budget (OMB) completed its review of the PTO’s proposed new rules governing information disclosure statements (IDS) and deemed the new rules to be “consistent without change.” Consequently, barring judicial intervention, the USPTO is expected to implement the new IDS rules early in 2008.<sup>10</sup> While the exact content of the new rules is not yet known, it appears that the new rules will change the time periods for filing IDSs and increase the disclosure requirements for certain submissions. The new rules will likely impose an affirmative duty on the submitter to review each item of information listed on an IDS. Fees for submitting an IDS will be eliminated. The rules are expected to provide a mechanism for

<sup>10</sup> Significant opposition was voiced against the new rules during the public comment period. Opposers presented concerns that the new rules will greatly increase the cost to prosecute patent applications and foster more inequitable conduct allegations.

applicants to consent to the filing of a protest by a third party for unsolicited documents received from the third party. Further, the changes will likely increase the window for allowing third party submissions of information by extending the submission period to six months after pre-grant publication of the application or the mailing of a notice of allowance, whichever occurs first. Details of the new IDS time periods and the increased disclosure requirements are provided below.

The new IDS rules can be broken down into four time periods: **1<sup>st</sup> period** – starts from the application filing date and ends at the later of three months after the filing date or the mailing of a first office action on the merits; **2<sup>nd</sup> period** – starts after the 1<sup>st</sup> period and ends with the mailing of a Notice of Allowability, Notice of Allowance, or a NIRC; **3<sup>rd</sup> period** – starts after the 2<sup>nd</sup> period and ends with payment of the issue fee; and **4<sup>th</sup> period** – starts after payment of the issue fee or mailing of NIRC and ends when there is no longer sufficient time for the IDS to be considered by the examiner prior to issuance of the patent or Reexamination Certificate. 71 Fed. Reg. 38808. In general, the PTO expects that the new rules will prompt applicants to submit IDSs before initial examination of an application and to only cite the most pertinent art. In cases where large documents, large numbers of documents, or foreign language documents are cited in an IDS, the PTO expects the new rules will expedite an examiner’s consideration of such IDSs. Some of the details of the expected new rules are provided below.

**1<sup>st</sup> Period.** IDSs filed before the later of three months after filing or before a first office action on the merits is mailed generally may be filed without triggering any additional disclosure requirements. An “explanation” is required, however, for any large document (exceeding 25 pages), any non-English language document, and for all documents in an IDS where the cumulative number of documents exceeds 20, except for any document cited by a foreign patent office in a counterpart foreign application if a search report is also filed. The “explanation” includes 1) identification of the specific features, showings, or teachings that caused the document to be cited; 2) identification of a portion of the document where the specific feature, showing, or teaching may be found; and 3) correlation of the specific feature, showing, or teaching to a claim of the application or the specification, if cited for that purpose.

**2<sup>nd</sup> Period.** IDSs filed after the end of the 1<sup>st</sup>

period but before the mailing of a Notice of Allowability, Notice of Allowance, or a NIRC may be filed if an “explanation” and a “non-cumulative description” are also filed, except that any document cited by a foreign patent office in a counterpart foreign application is exempt if a search report and a certification that each document in the IDS is being filed within three months of the date it was first cited by any foreign patent office in a counterpart foreign application are also filed. A “non-cumulative description” must include a description of how each document is not merely cumulative of any other document in any IDS or any information cited by the examiner.

**3<sup>rd</sup> Period.** IDSs may be filed after the 2<sup>nd</sup> period but before or with payment of the issue fee if accompanied by: 1) a certification that each document in the IDS is being filed within three months of the date it was first cited by any foreign patent office in a counterpart foreign application, or first became known to the applicant and 2) one of the “patentability justifications,” including an amendment, if necessary. The “patentability justifications” include either: 1) an “explanation,” a “non-cumulative description,” and

reasons why the independent claims are patentable over the information in the IDS being submitted, considered together, and in view of any information already of record; or 2) an “explanation,” a “non-cumulative description,” and reasons why an amendment causes claims, admitted to be unpatentable over the information submitted in an IDS, to now be patentable over such information when considered together, and in view of any information already of record.

**4<sup>th</sup> Period.** IDSs filed after payment of the issue fee or mailing of NIRC and when sufficient time remains for the IDS to be considered by the examiner prior to issuance of the patent or Reexamination Certificate may be filed if accompanied by: 1) a certification that each document in the IDS is being filed within three months of the date it was first cited by any foreign patent office in a counterpart foreign application, or first became known to the applicant; 2) a petition to withdraw the application from issue; and 3) an unequivocal statement that one or more claims are unpatentable in view of the cited information, an amendment to such unpatentable claims, and a “patentability justification.”

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