



1
Risks of Agreeing
Not to License a
Pooled Patent

3
Federal Circuit's
Transfer Decisions
Forcing Plaintiffs to
Re-evaluate Their
Eastern District of
Texas Strategy

8
Who Owns Your New
Employee's Patents?

12
Reexam Interrupted:
The PTO Cracks Down
on Filing Informalities

14
Intellectual Property
Practice News

Note from the Editors

This issue of the IP Quarterly Newsletter explores several areas of patent law, including one that intersects with antitrust issues and another that involves employment issues.

This winter issue covers four topics:

- The effects *Princo v. ITC* may have on patent and antitrust law involving **patent pools**
- Fresh analysis about the **Eastern District of Texas**: the Federal Circuit's latest **transfer decisions**

- An examination of *Stanford v. Roche* and a discussion about **employment agreements** and **patent ownership issues**

- A thorough analysis of the PTO's crackdown on **filing informalities in reexaminations**

We hope you find the articles interesting and helpful to you and your company. ■

Risks of Agreeing Not to License a Pooled Patent

By Cynthia Lopez Beverage

Patent owners that participate in a patent pool should pay close attention to an *en banc* hearing that will take place in *Princo Corporation v. International Trade Commission* in 2010.¹ At present, the parties, the NYIPLA, and the AIPLA are preparing briefs on patent misuse issues that the Federal Circuit specifically identified in its October 13, 2009 order granting *en banc* review.² In this case, the Federal Circuit may decide whether it is patent misuse for patent owners to agree among themselves *not* to license a pooled patent for a potentially competing technology outside of the pool.³

BACKGROUND

The root of the patent misuse issues in *Princo* started in the late 1980s and early 1990s, when U.S. Philips Corporation and Sony Corporation jointly developed the technical

industry standards (called the "Orange Book") for the production of CD-R and CD-RW discs. Philips developed and patented an analog

Continued on Page 2

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Pooled Patent

Continued from Page 1

method for encoding position data on a blank disk to determine position (“Raaymakers patent”). Sony developed and patented a digital method for doing the same (“Lagadec patent”). Philips and Sony, nevertheless, chose to define the Orange Book standard using only Philips’s analog approach. However, when Philips and Sony and two other companies agreed to pool their patents that covered the Orange Book standard, they also included Sony’s Lagadec patent in the patent pool’s joint license, even though this patent did not cover the chosen Philips analog approach described in the Orange Book. Though Princo Corporation and Princo American Corporation originally took a license to the Orange Book pooled patents, they later stopped paying royalties, and this resulted in Philips filing a complaint against them before the International Trade Commission. In response to the complaint, Princo asserted that Philips and Sony had agreed not to license the Lagadec patent, and that this was patent misuse because that agreement prevented the development of a technology that competed with the Orange Book technology.⁴

On April 20, 2009, a Federal Circuit panel issued a decision after reviewing an International Trade Commission ruling in *Princo*. The Panel Decision

rejected Princo’s argument that the Lagadec patent was not necessary to practice the technology of the Orange Book standard,⁵ but it also remanded to the Commission for further fact finding on whether Sony and Philips had agreed not to license the Lagadec patent.⁶ In its *en banc* order, the Federal Circuit vacated its Panel Decision, granted the petitions for rehearing *en banc* filed by Philips and the Commission, and reinstated the appeal filed by Princo.⁷ Princo’s reinstated appeal will now be decided by the Federal Circuit sitting *en banc*, after the parties file new briefs primarily addressing Section II of the Panel Decision.⁸

ARGUMENTS RAISED BY SECTION II OF THE PRINCO 2009 PANEL DECISION

Generally, Section II of the Panel Decision addressed whether the Lagadec patent was a viable alternative to the technology licensed through the Orange Book patent pool, and whether Philips and Sony agreed not to license the Lagadec patent in a way that would allow a competitor to develop, use, or license the Lagadec patent’s technology to create a competing technology.

Thus, in its *en banc* decision, the Federal Circuit will likely address whether and when the patent misuse doctrine applies to pooling arrangements in which participants agree not to license a patent outside of the pool. If the Federal Circuit concludes the relationship between Sony and Philips was vertical (*i.e.*, one involving complementary patents), the court will likely apply a rule of reason analysis,

which balances the procompetitive and anticompetitive effects of the restriction. However, if the Federal Circuit views the relationship between Sony and Philips as horizontal (*i.e.*, one that involved competing patents), there is the potential that the court would find the agreement to be *per se* patent misuse. The fundamental question the court must answer is whether procompetitive benefits of the patent pool potentially justify an agreement not to license outside of the pool. If so, the court would apply a rule of reason analysis even though the relationship is horizontal. If not, the court could apply a *per se* analysis.

If it concludes that the purported agreement between Philips and Sony is subject to a rule of reason analysis, the Federal Circuit may also have to determine the relevant market in which to evaluate the effects of the purported agreement and whether there is market power. How the Federal Circuit would make this evaluation is unclear. For example, the relevant market could be defined in several ways. It could be the market for the licensing of the technology covered by the Lagadec patent, the market for the technology of the Raaymakers patents, or even the market for the products covered by the patent pool. In addition, the range of parties that must be included in the market power analysis is also unclear. The range of parties could arguably range from all of the pool participants, to only the market power retained by Philips, or anywhere in between.

Continued on Page 3

Therefore, this decision could have a significant impact on the kinds of agreements that patent owners forming a pool may enter into with each other. If the Federal Circuit decides the agreement in *Princo* was *per se* patent misuse, pool participants will not be able to agree not to license pooled patents that arguably involve substitutable technologies outside of the pool without fear that they will violate the patent misuse doctrine. If, on the other hand, the Federal Circuit decides that the rule of reason applies to such agreements, patent owners should continue to carefully analyze potential competitive effects before entering into such an agreement. Until the Federal Circuit issues its *en banc* decision in *Princo*, patent owners should closely scrutinize agreements they may be entering into with other patent owners, particularly any agreements that restrict access to patents. ■

¹ 563 F.3d 1301 (Fed. Cir. 2009) (the “Panel Decision”).

² *Princo Corp. v. International Trade Comm’n*, 583 F.3d 1380 (Fed. Cir. 2009) (per curiam). At present, the court has extended the deadlines for briefing. *Princo*’s and the Commission’s briefs are due on 1/15/2010; Philips’s brief is due on 2/5/2010.

³ Though it previously held that a patent owner was under no obligation to license a patent, *Intergraph Corporation v. Intel Corporation*, 195 F.3d 1346, 1362 (Fed. Cir. 1999) (the antitrust laws do not negate the patentee’s right to exclude others from patent property) (citing *Cygnus Therapeutic Sys. v. ALZA Corp.*, 92 F.3d 1153, 1160 (Fed. Cir. 1996)), in *Princo* the question is addressed to whether patent owners can agree among themselves to withhold a license to a patent.

⁴ *Princo*, 563 F.3d at 1302.

⁵ 563 F.3d at 1311-12.

⁶ 563 F.3d at 1310.

⁷ 583 F.3d at 1380-81.

⁸ 583 F.3d at 1381.

Federal Circuit’s Transfer Decisions Forcing Plaintiffs to Re-evaluate Their Eastern District of Texas Strategy

By Jason A. Crotty and J. Manena Bishop

In re Hoffman-La Roche Inc. and *In re Nintendo Co., Ltd.* are the latest in a series of Federal Circuit decisions that have shifted the legal landscape regarding patent venue—turning the tide in favor of defendants seeking to transfer cases out of the Eastern District of Texas.¹ Indeed, it appears that a plaintiff’s chances of successfully opposing a transfer motion out of the Eastern District of Texas are lower than ever before.

In recent years, the Eastern District of Texas developed a reputation for being a desirable forum for plaintiffs, attracting numerous patent owners and making the district a hotbed for patent litigation. Moreover, because motions to transfer appeared to be routinely denied, defendants found themselves required to litigate in the Eastern District of Texas, even when virtually no connection existed between the dispute and the venue.

The Fifth Circuit’s *en banc* decision in *Volkswagen*, an auto injury case, started a significant change in transfer law. *In re Volkswagen of America, Inc.*, 545 F.3d 304 (5th Cir. 2008) (*en banc*). In ordering the case transferred from the Eastern District to the Northern District of Texas, the appellate court held that the district court could not disregard the physical location

of evidence simply because modern technology makes it easier to transport certain forms of discovery. *Id.* at 316, 322-23. Virtually everything related to the dispute in *Volkswagen* stemmed from or was located in Dallas, including all of the witnesses, documents, and physical evidence. *Id.* at 316-18. Additionally, the Northern District had absolute subpoena power over all of the witnesses. *Id.* at 316. The appellate court concluded that the district court had erred in failing to properly consider the actual location of evidence, the availability of the compulsory process, and the local venue’s interest in deciding the case “at home.” *Id.* at 317-18. The Fifth Circuit granted Volkswagen’s petition and ordered the case transferred to the Northern District of Texas. *Id.* at 319.

Soon after *Volkswagen*, a patent infringement defendant, TS Tech, filed a petition for writ of mandamus in the Federal Circuit. *In re TS Tech USA Corp.*, 551 F.3d 1315, 1318 (Fed. Cir. 2008). Following Fifth Circuit law, the Federal Circuit held that the district court clearly abused its discretion by: (1) giving too much weight to plaintiff’s choice of venue; (2) ignoring Fifth Circuit precedent requiring an assessment of costs for attendance of witnesses; (3) marginalizing the

Continued on Page 4

Eastern District of Texas Strategy

Continued from Page 3

factor concerning the relative ease of access to sources of proof; and (4) disregarding Fifth Circuit law in analyzing the public interest in having localized decisions decided “at home.” *Id.* at 1320-21. Accordingly, the Federal Circuit granted TS Tech’s writ and ordered the district court to transfer the case. *Id.* at 1322-23.

Initial district court rulings following *Volkswagen* and *TS Tech* suggested that more cases would be transferred from the Eastern District of Texas, particularly when the physical evidence and witnesses were centralized at or near the proposed transferee courts and when the alternate forum was “clearly more convenient.” *Id.* at 1319 (quoting *Volkswagen*, 545 F.3d at 315). However, plaintiffs in multi-defendant “decentralized” cases (*i.e.*, cases in which the evidence, witnesses, and parties were located throughout the country) seemed to have a better chance at defeating transfer motions. Indeed, several cases supported the notion that “centralized” cases, where the physical evidence was confined to a “limited region,” were distinguishable from “decentralized” national cases, where no single venue would clearly be more convenient. *See, e.g., Novartis Vaccines & Diagnostics, Inc. v. Hoffman-La Roche Inc.*, No. 2:07-CV-

507, Order, slip op. at 5 (E.D. Tex. Feb. 3, 2009).²

The rationale for decentralized, multi-party cases, however, was short lived. The Federal Circuit again exercised its mandamus power — this time ordering the transfer of a decentralized case out of the Eastern District of Texas. *See In re Genentech, Inc.*, 566 F.3d 1338 (Fed. Cir. 2009). Several months later, the Federal Circuit issued yet two more transfer decision involving decentralized evidence, parties, and witnesses. *See Nintendo*, 2009 WL 4842589, at *4-5; *Hoffmann-La Roche*, 2009 WL 4281965, at *4. The *Genentech*, *Hoffman-La Roche*, and *Nintendo* decisions made clear that the Federal Circuit would not shy away from reviewing district court venue transfer rulings via writs, even in decentralized cases.

In *Genentech*, Sanofi, a German pharmaceutical firm, filed a patent infringement action against Genentech (located in the Northern District of California) and Biogen (located in the Southern District of California) in the Eastern District of Texas. *Genentech*, 566 F.3d at 1340-41. The witnesses and evidence were located in multiple geographic regions, and none were located in Texas. *Id.* The district court based its ruling on its determination that the Eastern District of Texas was as good a central location for a decentralized case as any other venue. *Id.* at 1342. The Federal Circuit rejected this “central location rationale” and set forth several instances in which

the district court failed to properly assess the relevant factors under Fifth Circuit law. *Id.* at 1342-49.

- First, the district court improperly disregarded multiple potential witnesses in California because they were not “key witnesses.” *Id.* at 1344-45. Witnesses need not be “key witnesses” as long as they have knowledge of “relevant and material information at this point in the litigation.” *Id.* at 1344.
- Second, the district court’s application of the Fifth Circuit’s “100-mile” rule for determining the cost of attendance for willing witnesses and parties was improper. *Id.* at 1344. Although Europe is closer to Texas than it is to California, the witnesses from Europe would be “required to travel a significant distance no matter where they testify.” *Id.* Therefore, the slight additional time that European witnesses would have to travel was far outweighed by the significant inconvenience that two California parties and multiple California-based witnesses would have had to face if required to travel to Texas. *Id.*
- Third, in ruling that Texas is a central location, the district court failed to consider the fact that none of the identified witnesses lived in Texas and the majority of witnesses lived in California. *Id.* at 1344-45.

Continued on Page 5

Eastern District of Texas Strategy

Continued from Page 4

- Fourth, the district court erred in minimizing the “significant and unnecessary burden” that would be imposed on defendants if required to transport relevant materials from California to Texas. Moreover, it would be only “slightly more inconvenient or costly to require the transportation of [Sanofi’s] materials [housed in Europe and Washington, D.C.] to California [rather] than Texas.” *Id.* at 1345-46.
- Fifth, the district court overlooked the fact that the compulsory process factor weighed in favor of transfer more than “slightly” because there were a substantial number of witnesses within the subpoena power of the Northern District of California and none within the compulsory process power of the Eastern District of Texas. *Id.* at 1345.
- Sixth, the district court clearly erred in giving weight to the fact that: (1) Genentech had previously filed a different suit in the Eastern District of Texas and (2) the California district court might not have had jurisdiction over plaintiff. *Id.* at 1346. Both Genentech’s previously-filed

case and Sanofi’s challenge to jurisdiction were irrelevant to a transfer analysis under 28 U.S.C. § 1404(a). *Id.*

- Finally, the district court’s discussion of the potential court congestion in the Northern District of California was “speculative” and “should not alone outweigh” all of the other relevant factors. *Id.* at 1347.

Although the Federal Circuit did not evaluate whether the Northern District of California’s interest in having the case tried “at home” only “slightly” favored transfer, the court concluded that it “nevertheless favors transfer.” *Id.* After considering all of these factors, the Federal Circuit granted the petition and ordered the district court to transfer the case to the Northern District of California. *Id.* at 1348-49.

The first of the Federal Circuit’s two most recent transfer opinions, *Hoffmann-La Roche*, extended this ongoing shift in transfer law. *Hoffmann-La Roche*, 2009 WL 4281965, at *4. In *Hoffmann-La Roche*, Novartis Vaccines and Diagnostics, Inc., a company headquartered in California, brought suit in the Eastern District of Texas against Hoffmann-La Roche Inc., Roche Laboratories Inc., Roche Colorado Corp., and Trimeris, Inc. *Id.* at *1. Novartis alleged that Fuzeon[®], a commercial HIV inhibitor drug, infringed its patent. *Id.* Fuzeon[®] was developed at Trimeris’

labs in North Carolina where certain documents were maintained. *Id.* Roche’s manufacturing and processing facilities were located in Colorado, Michigan, and Switzerland. *Id.* The company packaged the drug at its New Jersey headquarters and marketed Fuzeon[®] nationwide. *Id.* Only a handful of 25 potential witnesses lived in North Carolina. *Id.*

Defendants moved to transfer, contending that there were no witnesses or evidence within 100 miles of the Eastern District of Texas. *Id.* Additionally, defendants argued that most of the relevant evidence, a number of Trimeris’ employee witnesses, and four non-employee witnesses were located in North Carolina. *Id.* Novartis opposed, arguing that the case involved multiple parties from across the country, and that sources of proof and witnesses were located throughout the United States. *Id.* Consequently, transferring the case to North Carolina would merely rearrange the inconveniences. *Id.*

Chief Judge David Folsom agreed with Novartis and denied the motion to transfer, finding that: (1) four non-party witnesses in North Carolina did not constitute a substantial number of witnesses; (2) Novartis’ documents had been transferred to Texas; and (3) the district court had subpoena power over one of the witnesses who lived in Houston. *Id.* at *2. The district court concluded that “the Eastern District of North Carolina had no more of a local

Continued on Page 6

Eastern District of Texas Strategy

Continued from Page 5

interest in deciding this matter than the Eastern District of Texas” because the accused product was offered for sale nationwide. *Id.* at *4. Defendants petitioned the Federal Circuit for a writ of mandamus. *Id.* at *2.

The Federal Circuit compared the case’s connection to the Eastern District of Texas and its connection to the Eastern District of North Carolina and held that there was “a stark contrast in relevance, convenience, and fairness between the two venues.” *Id.* The appellate court held that the district court clearly abused its discretion by failing to give proper weight to the meaningful connection that the patent infringement dispute had to North Carolina but did *not* have to the Eastern District of Texas. *Id.* at *4. In reaching its decision, the Federal Circuit analyzed relevant factors under Fifth Circuit law and made the following conclusions:

- The “sources of proof” related to the development and testing of the infringing product were located in North Carolina (the location where the accused drug was developed). *Id.* at *2.
- The district court had no basis to conclude that documents that were electronically transferred from

California to Texas supported rejection of the transfer motion. The law prohibits “attempts to manipulate venue in anticipation of litigation or a motion to transfer.” *Id.* at *3.

- The district court disregarded precedent by holding that North Carolina had no more of a local interest than Texas. On the contrary, the “local interest in this case remains strong because the cause of action calls into question the work and reputation of several individuals residing in or near that district.” *Id.* at *2.
- The matter had “no relevant factual connection to the Eastern District of Texas.” In contrast, North Carolina’s interest in the matter was “self-evident.” *Id.* at *4.
- The district court overlooked the importance of the “absolute subpoena power,” which permits a court to compel a witness to attend depositions and trial. In doing so, the district court gave too much weight to its ability to compel one witness at trial, noting that because the witness lived more than 100 miles away, the district court would not be able to compel her to attend a deposition. The district court also failed to consider the fact that the Eastern District of North Carolina had absolute subpoena power over at least four non-party witnesses, which favored transfer. *Id.*
- The less-congested docket of the district court of North Carolina indicated that the court “may be able to resolve this dispute more quickly.” *Id.* at *2.

The Federal Circuit granted the petition and directed the Eastern District of Texas to transfer the dispute to the Eastern District of North Carolina. *Id.* at *4.

The second of the Federal Circuit’s two recent decisions further confirmed this ongoing shift in the law. *See Nintendo*, 2009 WL 4842589, at *4-5. In *Nintendo*, Nintendo sought transfer to the Western District of Washington, where it was incorporated and had its principal place of business. *Id.* at *1. Motiva opposed transfer, arguing that Eastern District of Texas was the proper venue for the decentralized case. *Id.* The Federal Circuit again rejected the “decentralized” argument for maintaining a case in Texas that lacks any connection to the venue and reminded the district court that it had “already questioned this type of reasoning in another case involving the Eastern District of Texas.” *Id.* at *4 (citing *Genentech*, 566 F.3d at 1344). In holding that “the district court clearly abused its discretion in denying transfer from a venue with no meaningful ties to the case,” *id.* (citing *TS Tech*, 551 F.3d at 1322-

Continued on Page 7

Eastern District of Texas Strategy

Continued from Page 6

23), the Federal Circuit reached the following conclusions:

- Although the district court “correctly assessed the local interest of the Western District of Washington as high” and “candidly observed that the Eastern District of Texas has little relevant local interest in the dispute,” it “gave the plaintiff’s choice of venue too much deference.” *Id.* at *3-4.
- The district court also improperly failed to give proper weight to the fact that “[a]ll of the identified key witnesses in this case [we]re in Washington, Japan, Ohio, and New York” and “[n]o witnesses live[d] in Texas.” *Id.* at *3.
- The fact that Nintendo’s products are sold nationally did not justify keeping the case in Texas. “The Fifth Circuit has unequivocally rejected the argument that citizens of the venue chosen by the plaintiff have a ‘substantial interest’ in adjudicating a case locally because some allegedly infringing products found their way into the Texas market.” *Id.* (citing *Volkswagen*, 545 F.3d at 317-18).
- The district court “glossed over a record without a single relevant

factor favoring the plaintiff’s chosen venue” and incorrectly “hypothesized that the Eastern District of Texas could serve as a centralized location” despite the fact that neither party had evidence in Texas, and the majority of Nintendo’s evidence was located in Washington. *Id.* at *4-5.

Because all of the relevant factors favored transfer, the Federal Circuit held that the district court’s result was “patently erroneous” and ordered the case transferred to the Western District of Washington.

These recent Federal and Fifth circuit venue decisions indicate that the tide continues to turn in favor of parties seeking to transfer cases out of the Eastern District of Texas. Moreover, it appears that the Federal Circuit is paying close attention to newly-issued district court transfer rulings and will not hesitate to find an abuse of discretion when lower courts fail to balance the *Volkswagen* factors in a manner that conforms to its recent decisions. *Genentech* and *Nintendo* indicate that transfer is appropriate in decentralized cases if there are no witnesses in the district where the case is filed and a significant number of witnesses would benefit from a change of venue. *Hoffman-La Roche* and *Nintendo* suggest that district courts evaluate whether the patent dispute’s connection to a plaintiff’s selected venue is more meaningful

than the connection to any one alternative local venue. All of these cases highlight the importance of witness convenience, location of evidence, and a connection between the dispute and the district. Additionally, the fact that a case involves a product that is sold nationwide no longer means that any venue in the country is appropriate. Consequently, even decentralized cases now appear to have a high probability of being transferred if the dispute does not have any meaningful connection to the Eastern District of Texas and an alternate jurisdiction with such a connection exists.

The Federal Circuit’s recent opinions may cause patentees to rethink their strategies regarding choice of forum and reconsider whether they should file in the Eastern District of Texas. And if cases with no connection to the district are nonetheless filed there, these recent decisions indicate that the odds of obtaining transfer to a forum with a more significant connection to the case are much better than they were just a year ago. ■

¹ *In re Hoffmann-La Roche Inc.*, --- F.3d ---, Misc. No. 911, 2009 WL 4281965 (Fed. Cir. Dec. 2, 2009); *In re Nintendo Co., Ltd.*, --- F.3d ---, Misc. No. 914, 2009 WL 4842589 (Fed. Cir. Dec. 17, 2009). The other decisions in the series include: *In re Genentech, Inc.*, 566 F.3d 1338 (Fed. Cir. 2009); *In re TS Tech USA Corp.*, 551 F.3d 1315 (Fed. Cir. 2008); *In re Volkswagen of America, Inc.*, 545 F.3d 304 (5th Cir. 2008) (en banc).

² Morrison & Foerster LLP represents plaintiff Novartis Vaccines and Diagnostics, Inc.

Who Owns Your New Employee's Patents?

By David J. Murphy and David C. Hoffman

The recent decision by the Federal Circuit in *Stanford University v. Roche*¹ emphasizes how important it is for employers and their counsel to use precise language when drafting clauses governing an employee's obligation to assign inventions to his or her employer. Stanford University was unable to establish ownership of patents covering inventions developed by an employee even though the employee had signed an agreement containing terms which many would consider more than adequate to protect Stanford's interests in the inventions. The *Stanford* case demonstrates how the wrong choice of contractual language can have important and costly consequences, including the loss of valuable patent rights. In this article, we offer some suggestions to help companies and their counsel avoid similar outcomes by carefully managing their employees' activities with third parties and by carefully drafting assignment provisions in employment agreements.

The patents at issue were developed in part by a Stanford employee while visiting Cetus Corporation to learn a new research method. That employee

signed a "Visitor's Confidentiality Agreement" in which he agreed to assign to Cetus his rights to any inventions made as a consequence of his work there. The Cetus agreement, however, directly conflicted with the employee's prior Stanford employment agreement, which appeared to require that he assign to Stanford any inventions conceived or reduced to practice during his employment.

The Federal Circuit's decision in the *Stanford* case raises a number of issues relevant to agreements allocating patent rights generally. These issues include: (1) the importance of careful drafting of employment and other agreements governing the obligations of researchers and other employees to assign to their employers inventions arising during the course of an employment relationship; (2) the need to consider how to handle situations in which an employee might have conflicting obligations to his or her employer and another organization, whether in the context of a collaboration, a consultancy, or some other type of relationship; and (3) the importance of educating employees regarding what to look for when reviewing the wide variety

of agreements executed during the routine course of business.

WHAT HAPPENED IN THE *STANFORD* CASE

The three patents at issue in the case all claimed priority to a common parent application involving a method of monitoring the efficacy of HIV treatments.² Stanford researchers performed much of the initial work on this method while working for Stanford until one of them, Mark Holodniy, went to Cetus as a visiting scientist. Three other Stanford researchers, including Holodniy's laboratory supervisor, Thomas Merigan, were named as co-inventors with Holodniy on some or all of the three patents.

Holodniy joined Merigan's laboratory at Stanford in 1988 as a Research Fellow in the Department of Infectious Disease. At that time, he signed a "Copyright and Patent Agreement" (the "Stanford CPA") with Stanford that obligated him to assign any future inventions arising out of his employment to Stanford. According to the terms of the Stanford CPA, Holodniy acknowledged that Stanford entered into "Contracts or Grants" with

Continued on Page 9

New Employee's Patents

Continued from Page 8

third parties and that he might “conceive or first actually reduce to practice” various inventions during his employment. His Stanford CPA then also expressly provided that “I agree to assign or confirm in writing to Stanford and/or Sponsors that right, title, and interest in . . . such inventions as required by Contracts or Grants.” As part of the same agreement, Holodniy also expressly promised to “not enter into any agreement creating . . . patent obligations in conflict with this agreement. . . .”³

In early 1989, as part of his research project in Merigan’s laboratory at Stanford, Holodniy began to visit Cetus Corporation at Merigan’s direction in order to learn how to perform the polymerase chain reaction (“PCR”). The ultimate goal was to develop a PCR-based assay to monitor the efficacy of HIV treatment. When he first went to Cetus, Holodniy signed a “Visitor’s Confidentiality Agreement” (the “Cetus VCA”). According to its terms, Holodniy agreed that “I will assign and do hereby assign to CETUS my right, title, and interest in each of the ideas, inventions,

and improvements” made “as a consequence of” his work at Cetus.⁴

During that same time period, Cetus researchers collaborated with other Stanford inventors besides Holodniy on other aspects of the research project. As part of that collaboration, Merigan, Stanford, and Cetus signed several “Materials Transfer Agreements” allowing Stanford to use certain PCR-related materials and information supplied by Cetus. Those agreements also granted Cetus licenses to technologies created by Stanford using materials and information supplied by Cetus.

Holodniy’s research at Cetus eventually produced a PCR-based assay to measure HIV RNA levels in plasma samples. Subsequent clinical studies at Stanford by the Stanford inventors, including Merigan and Holodniy, confirmed that HIV RNA levels measured by PCR served as a suitable marker for antiretroviral drug efficacy. Those results formed the basis of the patents at issue in the lawsuit.

In December 1991, Roche purchased Cetus’s PCR business, including its agreements with Stanford, and shortly thereafter began to manufacture HIV detection kits using RNA-based assays. In May 1992, Stanford filed the patent application to which the three patents at issue claim priority. In October of 2005, Stanford sued

Roche in the Northern District of California, alleging its HIV detection kits infringed the patents at issue.⁵

The outcome of the case turned on the proper interpretation of both the “Visitor’s Confidentiality Agreement” executed during the collaboration between Holodniy and Cetus on the one hand, and Holodniy’s CPA with Stanford on the other hand.

THE DISTRICT COURT’S DECISION

Roche challenged Stanford’s ownership of the patents, claiming that Roche’s acquisition of Cetus’s PCR assets gave it the right to use the patents under the terms of the Cetus VCA which Holodniy had signed. Roche asserted its theory as a declaratory judgment counterclaim, an affirmative defense, and a challenge to Stanford’s standing to sue for infringement. The district court, however, treated Roche’s defense only as a counterclaim and held that the claim was barred under the applicable California statute of limitations. The court also went on to find all three patents invalid for obviousness. Both parties then appealed to the Federal Circuit.

THE FEDERAL CIRCUIT’S DECISION

The Federal Circuit began by recognizing that Roche had pled ownership not only in its counterclaim, but also as an affirmative defense. The

Continued on Page 10

New Employee's Patents

Continued from Page 9

court held that, since an affirmative defense may be raised at any time—even if the matter alleged would be barred by a statute of limitations if asserted as the basis for affirmative relief—the California statute of limitations did not preclude Roche's ownership defense. The court then turned to the contractual issue of exactly who owned the patents.⁶

The Federal Circuit's contractual analysis centered on key differences between the assignment provisions in the Stanford CPA and the Cetus VCA. The Stanford CPA contained language (“**agree to assign**”) which the court treated as a promise by Holodniy to assign invention rights to Stanford at some time in the future. In direct contrast, the Cetus VCA contained language (“**agree to assign and do hereby assign**”) which the Federal Circuit treated as an immediate assignment of expectant interests.⁷

The Federal Circuit concluded that (1) Cetus held equitable title from Holodniy at the moment of invention, and (2) Cetus's legal title to the invention formally vested at the moment the patent application was filed. Because of the difference in the contractual language, the Federal

Circuit concluded that Stanford did not own Holodniy's interest in the invention. According to the court, the terms of the Stanford CPA required that Stanford obtain an actual assignment to perfect its title, even though Holodniy signed the Cetus VCA after he signed the Stanford CPA. In other words, Stanford did not immediately gain title to Holodniy's inventions on execution of the Stanford CPA, or at the time the inventions were made. The Federal Circuit held that Holodniy's later assignment to Stanford had no effect because he no longer retained any right, title, or interest in the inventions at that point, having instead conveyed them already to Cetus by the terms of the Cetus VCA.⁸

The Federal Circuit recognized Roche's ownership interest in the patents derived from Holodniy's original assignment to Cetus via the Cetus VCA.⁹ As a result, the Federal Circuit reversed the district court, finding that Stanford lacked standing to assert its claims of patent infringement because the University could not establish ownership of all right, title, and interest in the patents at issue.

THE LESSONS OF THE COURT'S HOLDING

The major lesson of the *Stanford* case is that language conveying a present assignment of future interests—as with the “**agree to assign and do hereby**

assign” language used in the Cetus VCA—in employment agreements is vastly preferable to language merely promising to convey rights in the future, such as in the Stanford CPA. Agreements that include a present assignment of future interests (like that in the Cetus VCA) enable an assignee to claim equitable title at the moment of invention without the need to have the inventor execute additional assignments later. In contrast, a contract using the “**agree to assign**” language of the Stanford CPA requires that the inventor execute an additional assignment in order for the assignee to perfect its title in any inventions. There are obvious benefits to be gained by eliminating the need to execute a second document at a later time. And as illustrated by the outcome in the *Stanford* case, contracts containing a mere promise to assign rights in the future create the risk that an assignee may lose its rights before that later assignment is executed.

An important corollary also is that, whenever an entity has in the past executed agreements containing terms similar to the prospective “**agree to assign**” language of the Stanford CPA, the employee's progress on research projects or collaborations should be carefully monitored. All concerned should be prepared to promptly execute the documents required to perfect the assignee's title. Otherwise,

Continued on Page 11

New Employee's Patents

Continued from Page 10

the patent rights may later be lost if an intervening assignment has occurred.

It is worth noting that the Stanford CPA signed by Holodniy also included a clause providing that he expressly promised not to “enter into any agreement creating . . . patent obligations in conflict with this agreement.” However, this clause did not prevent the Federal Circuit from validating the assignment under the Cetus VCA in apparent conflict with Holodniy’s obligations to Stanford. In the court’s decision, it emphasized that the university had either actual or constructive notice of Holodniy’s assignment of rights in the Cetus VCA to Cetus, since Holodniy’s work at Cetus related directly to his work at the university and was known by his Stanford superiors to be taking place.¹⁰ Stanford might have benefited from a stronger and more direct notice requirement in its standard Copyright and Patent Agreement requiring any employee, such as Holodniy, to notify Stanford prior to executing any agreement to assign employee inventions to a third party. Also, Stanford’s position in the litigation would have been strengthened had Stanford inserted a clause in the

The Stanford case also emphasizes the importance of educating employees about potential pitfalls associated with contract clauses that allocate or assign patent rights, and what to look for when agreements contain such clauses.

Cetus/Stanford Materials Transfer Agreements requiring Cetus to provide notice whenever Cetus required or received an assignment of patent rights from any visiting Stanford employee.

The *Stanford* case also emphasizes the importance of educating employees about potential pitfalls associated with contract clauses that allocate or assign patent rights, and what to look for when agreements contain such clauses. In particular, employees should be instructed never to sign any agreements that contain clauses assigning patent rights, without first obtaining the advice and approval of their employer or their employer’s counsel.

It may also be worthwhile to consider providing a brief seminar on or a written summary of relevant

issues accompanied by examples of agreements to all new employees involved in potentially patentable work at the time of hiring. These same employees also should be alerted to the possibility that apparently routine agreements, such as confidentiality or nondisclosure agreements, may unexpectedly include assignment clauses. This information may assist an employee unaccustomed to reviewing legal documents to avoid unwittingly assigning his or her employer’s rights to future inventions to an entity other than the employer. ■

¹ *Board of Trustees of the Leland Stanford Junior University v. Roche Molecular Systems, Inc.*, 583 F.3d 832 (Fed. Cir. 2009).

² The actual patent application was entitled “Polymerase Chain Reaction Assays for Monitoring Antiviral Therapy and Making Therapeutic Decisions in the Treatment of Acquired Immunodeficiency Syndrome.”

³ *Stanford v. Roche*, 583 F.3d at 841- 842.

⁴ *Id.* at 842.

⁵ See generally, *Id.* at 837 - 838. The patents involved then were issued on October 19, 1999, January 7, 2003, and October 31, 2006.

⁶ *Id.* at 841. While the question of whether contractual language effects a present assignment of patent rights or an agreement to assign rights in the future ordinarily would be resolved under state law, the court held that this question instead would be resolved under the law of the Federal Circuit because the question is intimately bound up with the question of standing in patent cases. Notwithstanding this “choice of law” point, the same basic contract principles applied to the court’s analysis as under most state law approaches, and this choice of law was not itself determinative.

⁷ *Id.* at 841-842.

⁸ *Id.* at 842.

⁹ The Federal Circuit also vacated the district court’s final judgment holding the three patents invalid for obviousness.

¹⁰ *Id.* at 843.

Reexam Interrupted: The PTO Cracks Down on Filing Informalities

By Robert A. Saltzberg, Kaare D. Larson, and Yan Leychkis

In recent months, patent reexamination practitioners have spotted an alarming trend. Increasingly, the PTO has refused to grant filing dates to reexamination requests due to alleged noncompliance with filing formalities. That is, the requests are “bounced” for failing to pass an initial, formal hurdle before any review on the merits.

A recent review of PTO reexamination records has revealed that approximately 60% of *ex parte* requests filed in the third quarter of 2009 were not granted their original filing date, compared with 27%-38% in the preceding three quarters.¹ The sharp rise in the number of noncompliant requests may stem from the PTO’s struggle to keep up with the robust growth of new reexamination filings.²

PROCEDURES

In denying a filing date, the PTO will send the requester either a Notice of Failure to Comply with Reexamination Request Filing Requirements (“Notice”) or a Decision Vacating Reexamination Filing Date (“Decision”) if the PTO decides to retract a previously granted filing date.³ The Notice or Decision will

identify the alleged filing deficiencies and solicit a correction.

The PTO will not grant a filing date until the requester files an acceptable, corrected request. The filing date of the accepted request is not retroactive to the date of the original, defective request. Although a Notice or Decision provides the requester only one opportunity to correct noncompliance within a specified period of time (usually 30 days),⁴ the PTO will accept a request filed after that time; the request will simply be treated as a new request rather than a corrected request. Nevertheless, practitioners certainly would prefer to avoid missing out on a filing date in the first place. Denial of a filing date will delay the order of a reexamination, and probably require substantial attorney time to correct the request.

AN SNQ MUST BE BOTH “SUBSTANTIAL” AND “NEW”

The primary reason for rejection of reexamination requests on first filing is failure to clearly state a substantial new question of patentability (SNQ). The applicable statute requires at least one SNQ for the request to be granted.⁵ An SNQ comprises a

substantial and new, non-cumulative technological teaching that was not previously considered and discussed on the record during prosecution of the original patent application or in any prior reexamination proceeding.⁶ Thus, not only must the request raise a technological teaching in a reference that a reasonable examiner would likely consider important (*i.e.*, “substantial”) to the patentability of at least one claim, but the request must also show that the teaching was not cumulative with other prior art teachings that had been considered and discussed on the record.

AVOIDING A BOUNCE

To address this issue, it is advisable to include a separate section early in the request that expressly identifies and explains every proposed SNQ for each claim. This SNQ section should focus on new technological teachings, as opposed to merely pointing out that a prior art reference, as a whole, was not previously considered and discussed on the record. To this end, it is often helpful to quote the PTO’s reasons for allowance of each independent claim for which reexamination is requested, and

Continued on Page 13

PTO Cracks Down

Continued from Page 12

explain how the cited prior art fills the technological “gap(s)” that purportedly resulted in the claims being allowed or affirmed.

In this regard, it is important to keep in mind that the cited prior art does not have to be new. A previously-cited reference may be used as long as it is presented in a “new light,” *e.g.*, the requester clearly identifies a teaching of the reference that was not previously addressed on the record.⁷

In addition to at least one SNQ, a reexamination request must include a detailed explanation of the pertinency and manner of applying the cited prior art to every claim for which reexamination is requested.⁸ Another common reason for denying a reexamination request is failure to clearly explain the proposed grounds for rejection. In some cases, the alleged lack of clarity is due to incorporation of prior arguments by reference. Also, the PTO frequently objects to grouping or “lumping” of proposed alternative grounds for rejection. Both of these devices can make it more difficult for the examiner to follow the arguments in a linear fashion.

Addressing these types of objections is relatively straightforward, but can be cumbersome if the request addresses a large number of claims and/or proposed SNQs. The requester may be wise to avoid incorporating by reference prior arguments for previous claims into later arguments in the request, unless the arguments and claim limitations are nearly identical. Although incorporation by reference may often seem like an effective way to streamline a request, some examiners appear to find such incorporation confusing.

As to the “lumping” objection, it is recommended that requesters avoid referring to the alternative use of secondary references in proposed rejections with terms the PTO may consider objectionable (*e.g.*, “alternatively,” “optionally,” and “and/or”), particularly in argument headings of the request. Instead, the requester may find it prudent to provide separate headings for each proposed ground for rejection, at least for every independent claim. Thus, instead of a heading stating “claim 1 is rendered obvious over Smith in view of Jones and/or Brown” it is safer to assert separately that “claim 1 is rendered obvious over Smith in view of Jones” and “claim 1 is rendered obvious over Smith in view of Brown.” Note, however, that a

super-heading that “lumps” rejections together may be proper as long as the subheadings break apart the rejections into separate, individual grounds.

In conclusion, the growing number of new reexamination requests appears to have resulted in stricter enforcement of PTO filing requirements. To avoid the extra cost and effort of filing a corrected request, it is advisable to explicitly lay out each proposed SNQ and to organize the arguments in a manner that is easy to follow in a linear fashion. ■

¹ Authors’ statistical analysis of Patent Application Information Retrieval (PAIR) accessible *ex parte* reexamination requests filed between October 1, 2008 and September 30, 2009 (hereinafter “PAIR Study”).

² As of September 30, 2009, 658 *ex parte* and 258 *inter partes* requests have been filed this year, compared with 680 *ex parte* and 168 *inter partes* requests filed in all of 2008. See *Ex Parte* Reexamination Filing Data – September 30, 2009 (http://www.uspto.gov/patents/stats/ex_parte_historical_stats_sept302009.pdf); *Inter Partes* Reexamination Filing Data – September 30, 2009 (http://www.uspto.gov/patents/stats/inter_partes_historical_stats_sept302009.pdf).

³ MPEP § 2227 (decisions vacating a filing date are fairly uncommon and seem to account for about 5% of all *ex parte* reexamination requests; see PAIR Study, *supra*).

⁴ MPEP §§ 2227 and 2627; 37 C.F.R. §§ 1.510(c) and 1.915(d).

⁵ 35 U.S.C. §§ 303, 304, 312 and 313.

⁶ MPEP §§ 2216, 2242, 2616 and 2642.

⁷ 35 U.S.C. § 303(a); *In re Swanson*, 540 F.3d 1368 (Fed. Cir. 2008).

⁸ 37 C.F.R. §§ 1.510(b) and 1.915(b).

Intellectual Property Practice News

LEADERSHIP AND ACCOLADES

During the fourth quarter of 2009, several of the firm's IP attorneys were appointed to leadership roles in local, national, and international legal organizations. **Brian Busey**, partner in the Washington, D.C. office, was elected President of the International Trade Commission Trial Lawyers Association (ITCTLA). Founded in 1984, the ITCTLA is the leading association for attorneys involved and interested in the Section 337 practice and, through its 13 committees, provides views of the Section 337 bar to the Commission and Congress. San Francisco partner **Arturo González** was elected President of the Bar Association of San Francisco. Mr. Gonzalez will preside over the 8,000-member organization, which is one of the largest and most distinguished bar associations in the U.S. Lastly, **James Pooley** officially assumed his new role as Deputy Director General of the World Intellectual Property Organization (WIPO) in Geneva, Switzerland. WIPO is a specialized agency of the United Nations and is dedicated to developing a balanced and accessible international IP system. The organization was founded in 1967 by the United Nations' 184 member states.

In early December, **Law360** recognized MoFo's IP practice as the largest among full-service U.S. law firms. The firm's IP practice consists of approximately 325 attorneys worldwide, making it the third-largest IP practice among all U.S. law firms. Also in December, **Benchmark Litigation 2010** published its rankings. Benchmark recommends the firm for IP litigation in addition to Appellate, General Commercial, and Securities litigation. **Harold McElhinny**, partner in the San Francisco office, was named as a National Leading Lawyer ("Litigation Star") for IP litigation. **Karl Kramer**, partner in the Palo Alto office, was singled out for his victory for Osaka-based Funai Electric Co. in the ITC. Included in *Benchmark's* list of "Future Stars" in California were **Eric Acker** (San Diego partner), **Scott Oliver** (Los Angeles partner), and **Alison Tucher** (San Francisco partner).

FROM THE DOCKET

Summary Judgment Victory for Netflix Against Non-Practicing Entity

Morrison & Foerster won a summary judgment motion in favor of Netflix Inc. in a patent infringement suit brought by Media Queue LLC in October 2008 in the Eastern District of Oklahoma.

The patent-in-suit involved a method for notifying customers by email when their accounts no longer have movies queued for rental. The IP litigation team first won a motion to transfer the case in February 2009 to the Northern District of California. Within a few months after the transfer, the team filed an early summary judgment motion along with its claim construction briefs. On December 2nd, Judge Illston of the Northern District of California construed three key terms in the patent claims, found that Netflix does not infringe Media Queue's patent, and granted summary judgment.

San Francisco partners **Michael Jacobs** and **Matthew Kreeger** led the team for Netflix.

ITC Issues Exclusion Order in Sharp's Favor

On November 9, the ITC ruled that certain Samsung products, including LCD TVs, professional displays, and computer monitors, infringe all four patents asserted by Sharp and banned importation of the products into the U.S. The ruling is subject to a 60-day review period by the U.S. Trade Representative before it goes into full effect. In a June 12, 2009 initial determination, Chief Administrative Law Judge Paul Luckern

Continued on Page 15

concluded that Samsung violated Section 337 by making products that infringe Sharp patents for technology used in liquid crystal display products and recommended a limited exclusion order. The full ITC affirmed Judge Luckern's initial finding, but asked for comments on the appropriate remedy. After reviewing comments from Sharp, Samsung, and the Commission's own investigative attorney, the ITC decided that an import ban and 100% bond, as requested by Sharp, would be appropriate. This ITC matter is one of a series of disputes between Sharp and Samsung involving similar technology. Three of the disputes are in the ITC: Certain Liquid Crystal Display Modules, Products, Containing Same, and Methods for Using the Same (337-TA-634), Certain Liquid Crystal Display Devices and Products Containing the Same (337-TA-631), and a recently instituted case also entitled Certain Liquid Crystal Display Devices and Products Containing the Same (337-TA-699). In addition to the ITC investigations, there are companion district court cases in the District of Delaware where all of the patents at issue

in the ITC are also at issue. There is also a separate patent infringement case in Texas involving five Sharp patents and five Samsung patents. Trial in the Texas case is set for July 2010.

Washington, D.C. partners **Barry Bretschneider**, **A.C. Johnston**, and **Kristin Yohannan** lead the team for Sharp.

ICU Medical Wins Trademark Case

Morrison & Foerster scored a total victory for client ICU Medical, Inc., in the Central District of California. On October 8, Judge Mariana R. Pfaelzer issued an order and judgment in ICU's favor on all claims in a multi-count complaint alleging trademark infringement and unfair competition. Resulting from three separate and complex summary judgment motions filed over a six-month period, the court's sweeping ruling finds plaintiff RyMed Technologies' registered trademarks for its intravenous therapy valves to be invalid and orders the USPTO to cancel the registrations. Regarding the unfair competition claims, RyMed had alleged that ICU had made 14 separate false and misleading statements

concerning RyMed's and ICU's own products. Finding in favor of ICU on each of these allegations, Judge Pfaelzer ruled ICU had established that most of these statements were never made at all, and that the most consequential of the statements that were made, to the effect that RyMed's products suffered from leaking and coring problems and were incompatible with small gauge luers, were true. Earlier in the case, RyMed had unsuccessfully filed a motion for a temporary restraining order.

Another dispute between the same parties, a complaint by ICU for infringement of several of its patents, remains pending in the District of Delaware, and MoFo will represent ICU in the trial of that case this year.

Kim Van Voorhis, partner in the Palo Alto office, leads the MoFo team for ICU Medical. Laura and Ronald Kohut, partners at Kohut & Kohut in Orange County, California, are co-counsel for this matter. James Pooley co-lead the MoFo team until November, when he took up his new post as Deputy Director General at the World Intellectual Property Organization. ■

About Morrison & Foerster's Intellectual Property Practice

Morrison & Foerster maintains one of the largest and most active intellectual property practices in the world. The IP practice provides the full spectrum of IP services, including litigation and alternative dispute resolution, representation in patent and trademark prosecution, and business and licensing transactions. Morrison & Foerster's IP practice has the distinguishing ability to efficiently and effectively handle issues of any complexity involving any technology. For more information about the IP practice, please visit www.mofo.com.

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