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## Patent Misuse After *Princo Corp. v. Int'l Trade Commission*

On August 30, 2010, the Court of Appeals for the Federal Circuit issued an *en banc* decision in *Princo Corporation v. International Trade Commission* affirming the International Trade Commission's ("ITC") ruling that the U.S. Philips Corporation ("Philips") was not precluded by patent misuse from asserting its patents against Princo Corporation ("Princo").[1] The decision effectively limits the scope of the patent misuse doctrine and may have implications in the licensing efforts of joint ventures.

**Background**

Philips and the Sony Corporation ("Sony") worked together to develop standards for the technology associated with recordable compact discs ("CD-Rs") and rewritable compact discs ("CD-RWs"). Those standards were collected in a publication entitled "Recordable CD Standard," which is more commonly known as the "Orange Book."

During the development process, both Philips and Sony found different solutions to the problem of encoding position information on the disc.[2] Philips' solution was described in the Raaymakers patents, two of the patents at issue in this case. Sony's approach was set forth in the Lagadec patent, which was *not* asserted against Princo.

For purposes of the Orange Book standard, Philips and Sony agreed to adopt the approach described in the Raaymakers patents. Philips and Sony engineers found that approach to be "'simple and … work[] very well.'" In contrast, the solution described in the Lagadec patent was thought to

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## I Didn't Do (All Of) It: The Joint Infringement Defense

Following the Federal Circuit's 2007 decision in *BMC Resources* and its 2008 decision in *Muniauction,* joint infringement (aka divided infringement) has become a popular defense for parties accused of infringing method claims.[1] Direct infringement of a claimed method requires a party to perform each and every step of the claim. However, when the claim requires the joint acts of more than one party in order to perform all of the steps of the claim, it raises the issue of whether a single party is a direct infringer of the claim. If there is no direct infringer, then there is no liability. This is true even for liability under the doctrine of indirect infringement because indirect infringement, such as inducing or contributory infringement, is predicated upon a finding of direct infringement.

In *BMC Resources, Inc. v. Paymentech, L.P.*, it was undisputed that no single party performed every step of the asserted method claims directed to a PINless debit payment method.[2] The asserted claims required the joint actions of debit networks, financial institutions, and the payment service provider, Paymentech. The Federal Circuit noted that, first, infringement requires "a showing that a defendant has practiced each and every element of the claimed invention" and, second, courts have "generally refused to find liability where one party did not control or direct each step of the patented process."[3]

While the Court tempered this position by acknowledging that a party cannot avoid infringement by contracting out steps of a patented

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be "'prone to error'" and "'very difficult'" to implement.[3]

To commercialize their technology, Philips and Sony offered various package licenses for the patents required to manufacture CD-R/RW discs per the Orange Book standard. Included in the package licenses were both the Raaymakers and Lagadec patents. The licenses included a field of use provision that limited use of the patents to manufacturing Orange Book-compliant discs.

Despite entering into a license agreement with Philips in the late 1990s, Princo stopped paying the required licensing fees. This prompted Philips to file a complaint with the ITC alleging that Princo was importing infringing CD-Rs and CD-RWs.

Raising patent misuse as an affirmative defense, Princo argued that "Philips had improperly forced Princo and other licensees, as a condition of licensing patents that were necessary to manufacture CD-Rs or CD-RWs, to take licenses to other patents that were not necessary to manufacture those products."[4] Princo's patent misuse defense was based upon an alleged agreement between Philips and Sony to "suppress" the Lagadec technology (and not separately license the Lagadec patent), essentially to the benefit of the Raaymakers patents.

Although the administrative law judge at the ITC found Philips' patents were infringed, the judge denied relief to Philips on the basis that the patents were unenforceable due to patent misuse. That ruling, of course, was not the final word on the issue. Since that ruling, the case has taken an extensive path, with an appeal of the ITC's ruling to the Federal Circuit, a remand, another ruling by the ITC followed by a second appeal to the Federal Circuit, and culminating in an *en banc* hearing before the Federal Circuit and the subject opinion.

**No Leveraging, No Patent Misuse**

In considering whether patent misuse was present in this case, the Federal Circuit reviewed Supreme Court precedent and the basic rule established by that precedent—"the patentee may exploit his patent but may not 'use it to acquire a monopoly not embraced in the patent.'"[5] The majority opinion emphasized that, in view of the broad scope of licensing conditions that a patentee may impose, "the doctrine of patent misuse 'has largely been confined to a handful of specific practices by which the patentee seemed to be trying to "extend" his patent grant beyond its statutory limits.'"[6] The majority noted that the scope of patent misuse was narrow, and is not available to an infringer simply because the patentee engages in wrongful commercial conduct that might have anticompetitive effects.[7] "While proof of an antitrust violation shows that the patentee has committed wrongful conduct having anticompetitive effects, that does not establish misuse of the patent in suit unless the conduct in question restricts the use of that patent and does so in one of the specific ways that have been held to be outside the otherwise broad scope of the patent grant."[8]

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For patent misuse to exist, there must be connection between the patent right and the misconduct at issue.

The majority opinion reduced the issue to its simplest form—"[w]hen a patentee offers to license a patent, does the patentee misuse that patent by inducing a third party not to license its separate, competitive technology?"[9] For patent misuse to exist, reasoned the majority, there must be connection between the patent right and the misconduct at issue.[10] The Court found no connection between the alleged agreement between Philips and Sony to suppress the availability of the Lagadec technology and the asserted patents, the Raaymakers patents. The possibility of an antitrust violation with respect to the Lagadec patent did not make Philips liable for misuse of the Raaymakers patents.[11]

Specifically, the agreement did not "leverage the power of a patent to exact concessions from a licensee that are not fairly within the ambit of the patent right."[12] In the *Princo* case, unlike in the *Morton Salt* case,[13] the Raaymakers patents were not used to restrain competition with the patentee's sale of an unpatented product. The majority concluded that this was not a case where conditions had been placed on licenses that went beyond the physical or temporal scope of the patent grant, and accordingly held that there was no patent misuse.[14] "What patent misuse is about, in short, is 'patent leverage,' i.e., the use of the patent power to impose overbroad conditions on the use of the patent in suit that are 'not within the reach of the monopoly granted by the Government.'"[15]

**No Anticompetitive Effect, No Patent Misuse**

Having concluded that there was no patent misuse on the first basis, the majority opinion continued the analysis and also found no patent misuse on a second, separate basis—Princo's failure to establish that the alleged agreement between Philips and Sony to "suppress" the Lagadec technology had anticompetitive effects. Despite Princo's urging to the contrary, the Court refused to overrule the line of the authority requiring a showing of anticompetitive effects for patent misuse.

Relying on the findings of the ITC, the major-

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ity found that the alleged agreement did not suppress a viable technology that could have competed with the Orange Book standard.[16] The ITC found that the Lagadec technology did not work well, was prone to errors, and was not a commercially or technically viable approach to that of the Raaymakers patents.[17] Further, the ITC noted that Princo failed to show that any potential licensee had considered developing the Lagadec technology to compete with the discs made according to the Orange Book.[18] In view of the evidence (or lack thereof), the majority found that Princo failed to establish that the alleged agreement had any market effect at all, let alone the necessary anticompetitive effects required under the rule of reason analysis, and thus concluded that there was no patent misuse.

The majority discussed at length the many benefits of joint ventures, noting that

> [c]ollaboration for the purpose of developing and commercializing new technology can result in economies of scale and integrations of complementary capacities that reduce costs, facilitate innovation, eliminate duplication of effort and assets, and share risks that no individual member would be willing to undertake alone, thereby "promot[ing] rather than hinder[ing] competition."[19]

The majority further highlighted that "cooperation by competitors in standard-setting 'can provide procompetitive benefits . . . '" such as greater product interoperability, positive network effects, and "incentives to innovate by establishing a technical baseline for further product improvements."[20] Clearly, all these benefits were considered by the Court in rendering its decision.

**The Dissent**

The 42-page majority slip opinion was accompanied by a sharply worded, 32-page dissent authored by Judge Dyk and joined by Judge Gajarsa. The dissent vigorously disagreed with the majority's conclusion that there was no patent misuse. Rather, it viewed the alleged agreement between Philips and Sony to suppress the Lagadec technology as "part and parcel of the same course of conduct designed to protect the Raaymakers patents from competition from the alternative Lagadec technology."[21] The dissent would have placed the burden on Philips to show that the agreement between Philips and Sony had legitimate justifications or lacked an anti-competitive effect.[22] The differences between the majority and the dissent in this decision are exemplified in the final paragraph of the dissent:

> The majority's strict standard fails to provide adequate protection against the suppression of nascent technology, and allows patent holders free rein to prevent the development of potentially competitive technologies except in the most extreme and unlikely circumstances.[23]

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Collaborative ventures need to avoid licensing practices that involve improper leveraging of patents and result in anti-competitive effects.

**Practical Implications**

The Court's attention to joint ventures and other collaborative efforts among competitors could be viewed as encouraging to their existence. This "encouragement" should not, however, be taken as a suggestion that joint ventures are free to impose any provision in any resulting patent pools without regard to patent misuse. While the majority highlighted the broad scope of protection provided to patentees in licensing their patents, collaborative ventures still need to avoid licensing practices that involve improper leveraging of patents and result in anticompetitive effects.

In view of the *en banc* decision, it will now be more difficult to establish a patent misuse defense. Not only will the accused infringer have to establish that the conduct involves "improper leveraging," it will also have to show that the conduct has an anticompetitive effect that stems from an asserted patent (or patents), not just in some general sense. This will be particularly challenging where the technology was not developed, perhaps due to an agreement to suppress that technology in the first place. Rather than relying on the doctrine of patent misuse, such parties may consider asserting antitrust counterclaims as those claims apply to a broader range of conduct, *i.e.*, not limited to the asserted patent.

In sum, this decision represents a narrowing of the patent misuse doctrine and will likely give patentees greater latitude to enter into more creative collaborative venture agreements, pushing the boundaries of what is considered anticompetitive behavior.

***Author's Note***

The author would like to thank Michael H. Baniak, a partner at MBHB, for his advice in connection with this article.

***Endnotes***

1. 616 F.3d 1318 (Fed. Cir. 2010).
2. *Id.* at 1322.
3. *Id.*
4. *Id.* at 1323.
5. *Id.* at 1327.
6. *Id.* at 1329.
7. *Id.*
8. *Id.*
9. *Id.* at 1331.
10. *Id.*

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11. *Id.* at 1332.
12. *Id.* at 1333.
13. *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488 (1942).
14. *Id.* at 1331.
15. *Id.*
16. *Id.* at 1336-37.
17. *Id.* at 1337.
18. *Id.* at 1338.
19. *Id.* at 1335 (quoting DOJ and FTC, *Antitrust Guidelines for the Licensing of Intellectual Property*, §§ 5.1 at 24 and 5.5 at 28, Apr. 6, 1995).
20. *Id.* at 1335.
21. *Id.* at 1346.
22. *Id.* at 1354.
23. *Id.* at 1357.

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process to a third party,[4] it also conceded that "requiring control or direction" to establish joint infringement liability could result in arms-length agreements that legally avoid infringement.[5] Ultimately, the Court held that "Paymentech did not perform or cause to be performed each and every element of the claims"[6] because it found insufficient evidence as to whether Paymentech controlled or directed the activity of the debit networks.[7]

A year later, in *Muniauction, Inc. v. Thomson Corp.*,[8] the Federal Circuit further clarified the standard for finding joint infringement. There, the Court considered a patent directed to electronic methods for conducting original issuer auctions of financial instruments.[9] As in *BMC Resources,* there was no dispute that no single party performed every step of the asserted method claims.[10] While the majority of the steps in the asserted claims were performed by the auctioneer's system, at least one step, the inputting step, was completed by the bidder.[11] Again, the Federal Circuit found that the issue of infringement turned on whether Thomson sufficiently controlled or directed the bidder such that Thomson itself could be said to have performed every step of the asserted claims.[12]

The *Muniauction* district court, relying upon the Federal Circuit's pre-*BMC Resources* caselaw, found that there was a sufficient connection "between defendants, the bidders to whom they charge a fee for their services, and the issuers for whom they facilitate auctions" to hold Thomson liable for infringement.[13] The Federal Circuit, however, disagreed. The Court explained that under *BMC Resources,* "the control or direction standard is satisfied in situations where the law would traditionally hold the accused direct infringer vicariously liable for the acts committed by another party that are required to complete performance of a claimed method."[14] The Court determined that simply because "Thomson controls access to its system and instructs bidders on its use [, that] is not sufficient to incur liability for direct infringement."[15] Because Thomson neither performed every step of the claimed methods nor had another party perform the steps on its behalf, there was no liability based on a theory of joint infringement.[16]

Thus, *BMC Resources* set up a two-part inquiry for joint infringement: (1) whether the asserted claims call for more than one entity to perform the steps required by the claims, and (2) if so, whether one party has sufficient control or direction over the entire process such that every step is attributable to the controlling party, *i.e.*, the "mastermind."

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In situations where it is clear that two separate actors are required to perform each of the claimed method steps, the further apart the parties are from one another and the closer their relationship is to an "arms-length" transaction, the more difficult it will be to show joint infringement.

**Part One: How Many People Are Needed To Perform The Claimed Method?**

Before considering whether there is sufficient direction or control to establish joint infringement, there is the threshold question of whether the claims require more than one entity to carry out the required method steps. In *SiRF Technology, Inc. v. International Trade Commission*,[17] SiRF defended against infringement by arguing that "the claims are only infringed when actions are taken by SiRF's customers and by the end users of the GPS devices," who SiRF does not control or direct.[18] There, the Federal Circuit never reached the question of control because "[t]his is not a situation where a method claim specifies performance of a step by a third party, or in which a third party actually performs some of the designated steps, and thus control or direction of the performance of that step by the accused infringer is required."[19]

Thus, the Court held that the steps of the following representative claim 1 were all performed by a single party (SiRF) and did not require that any of the steps be performed by the customers or the end users:[20]

> 1. A method of receiving global positioning system (GPS) satellite signals comprising:
>
> receiving satellite ephemeris at a first location;
>
> communication [sic] the satellite ephemeris to a mobile GPS receiver at a second location; and
>
> processing satellite signals received at the mobile GPS receiver using the ephemeris to reduce code and frequency uncertainty in the mobile GPS receiver to improve acquisition sensitivity of the mobile GPS receiver.

Additionally, in a recent opinion from Judge Gottschall of the Northern District of Illinois, *Intellect Wireless, Inc. v. T-Mobile USA, Inc.*,[21] that court undertook a careful analysis of the claim language to determine whether the claims required more than one actor. Relying on *SiRF*, the court analyzed the claim step

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of "initiating a message from a message originator." According to the plaintiff, the defendant's software, rather than its subscribers, initiated the message.[22] The court conducted a lengthy analysis of relevant case law and ultimately rejected the argument that the claims required the actions of more than one entity.[23] Table I provides a list of additional district court cases in which the asserted claims were also found to require the actions of only one party.[24]

**Part Two: Is There Sufficient Control?**

If a court determines that a claim requires more than one actor to perform every step of the claimed method, it must then determine if the accused infringer asserts sufficient control over the parties performing other portions of the claimed method to incur liability for the other parties' actions. In situations where it is clear that two separate actors are required to perform each of the claimed method steps, the further apart the parties are from one another and the closer their relationship is to an "arms-length" transaction, the more difficult it will be to show joint infringement.

In *Golden Hour Data Systems, Inc. v. emsCharts, Inc.*,[25] the Federal Circuit considered a patent directed to a computerized method of generating a patient encounter record. Infringement was premised on a theory of joint infringement, but the Court found insufficient evidence to infer direction or control.[26] Similarly, in *Aristocrat Technologies v. International Gaming Technology*,[27] the district court considered patents directed to a networked gaming machine that required a step of "activating a user interface" or "making a wager"—steps that were performed by a game user, not the machine. Relying on *BMC Resources* and *Muniauction*, the *Aristocrat* court found insufficient direction or control over players' conduct, where IGT provided free credits to players to induce them to gamble at IGT's machines.[28] The court acknowledged the free credits might encourage some people to gamble at IGT's machines, but players are not obligated to use the free credits, nor are players acting on behalf of IGT when they use the free credits on IGT's machines.[29]

On the other hand, in *Rowe Int'l v. Ecast, Inc.*,[30] Judge Kennelly of the Northern District of Illinois considered patents directed to computer jukeboxes and jukebox networks. The court found sufficient direction and control among the defendants to deny summary judgment of no joint infringement.[31] In the *Rowe* case, there were manufacturing and distribution contracts between the defendants.[32] And Ecast regarded View and Rock-Ola as "partners" that, pursuant to these manufacturing contracts, made jukeboxes specifically designed to operate with Ecast's network service.[33] The court found that "Ecast literally contracted out to Rock-Ola and View the jukebox hardware element of the asserted claims."[34] Importantly, there was no suggestion that these firms were independently making jukeboxes that would work with the Ecast system.[35] Table II provides a snapshot of cases involving whether there was sufficient control by the "mastermind" in claims requiring multiple infringers.[36]

While courts are following the line of *BMC Resources* and *Muniaction*, it must be noted that Judge Newman's dissent in *Golden Hour* advocates for finding infringement without regard to whether one entity had control over the other when faced with a collaborative partnership[37]: "[H]ere the defendants 'formed a strategic partnership, enabled their two programs to work together, and collaborated to sell the two programs as a unit.'"[38] A jury found joint infringement where defendants combined their procedures into an integrated system and the panel majority acknowledged the defendants worked in collaboration to infringe the claims, yet the panel overturned the jury verdict without discussion.[39] So Judge Newman's stance that "[a] collaborative effort as here, a 'strategic partnership' to sell the infringing system as a unit, is not immune from infringement simply because the participating entities have a separate corporate status" could gain traction in later jurisprudence.[40]

**Claim Drafting & Practical Tips for Enforcing Existing Patents**

Keeping in mind the two-step inquiry for determining joint infringement, we suggest the following practice tips for patentees in order to avoid even having to argue against a joint infringement defense:

- Carefully review the claims of the patent to determine whether or not the claims require the actions of more than one entity. Rely on the *SiRF* case and its progeny to argue that even if the use of a system or method involves the actions of more than one party, the claims themselves may be directed to the actions of only one party.
- Draft claims from the perspective of each potential actor involved in the use of the system or method. For example, some claims should be directed to the actions of the end user of a computer system, whereas other claims should exclude any action of the end user, *i.e.*, "receiving data" from an end user, as opposed to "inputting data" by an end user. *BMC Resources* recommends "structur[ing] a claim to capture infringement by a single party."[41] For example, the claims can be drafted to focus on one entity by reciting "a single party's supplying or receiving each element of the claimed process."[42]
- Draft method claims, system claims, as well as product claims. Method claims may be more susceptible to requiring the actions of more than one entity, whereas system claims may provide a better mechanism for limiting claims to the actions of a single user.
- For patent applications that are still

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pending, review the pending claims to assess whether the existing claims present a divided infringement problem, and consider filing a continuation or divisional application to pursue claims more clearly directed to the actions of a single actor.

- For issued patents, it may be possible to file for a broadening reissue application within two years of patent issuance to pursue claims crafted to require the actions of only a single entity.
- In the event that you are stuck with claims that require the actions of more than one entity, marshal evidence directed to one party having direction or control over the other party/parties to establish a mastermind theory of joint infringement expressed in *BMC Resources*. At a minimum, seek to establish evidence of a collaborative relationship mentioned in Judge Newman's dissent in *Golden Hour Data Systems*, or try to establish that performance of a step has been merely contracted out to a third party, therefore falling within the exception recognized by the Federal Circuit in *BMC Resources*.

***Endnotes***

1. System claims are also subject to the defense of divided infringement. *See, e.g., Uniloc USA, Inc. v. Microsoft Corp.*, 640 F. Supp. 2d 150, 162 (D.R.I. 2009).
2. 498 F.3d 1373, 1377-79 (Fed. Cir. 2007).
3. *Id.* at 1380 (citations omitted).
4. *Id.* at 1379.
5. *Id.* at 1381.
6. *Id.* at 1382.
7. *Id.* at 1381.
8. 532 F.3d 1318 (Fed. Cir. 2008).
9. *Id.* at 1321.
10. *Id.* at 1328-29.
11. *Id.*
12. *Id.* at 1329.
13. *Muniauction, Inc. v. Thomson Corp.*, 502 F. Supp. 2d 477 (W.D. Pa. 2007).
14. 532 F.3d 1318, 1330 (citations omitted).
15. *Id.* at 1330.
16. *Id.*
17. 601 F.3d 1319 (Fed. Cir. 2010).
18. *Id.* at 1329.
19. *Id.*
20. *Id.* "Here, it is true that the 'communicati[ng]' or 'transmitting' can only occur if the customer forwards the data to the end user and the end user downloads the data. However, the actions of 'forwarding' or 'downloading' are not required by the claims, and, therefore, the fact that other parties perform these actions does not preclude a finding of direct infringement. By analogy, if a claim for a method of making a telephone call included the limitation: 'placing a telephone call to a telephone at a second location,' the fact that the call must first be routed through a switched telephone network, and then eventually to the eventual recipient, would not prevent this claim limitation from being satisfied. Therefore, we conclude SiRF indirectly transmits or communicates the files to the GPS receivers and thereby meets these claim limitations." *Id.* at 1330.
21. – F. Supp. 2d – , 2010 WL 3257924 (N.D. Ill. Aug. 13, 2010).
22. *Id.* at *5.
23. *Id.* at *6. *See also Chemfree Corp. v. J. Walter, Inc.*, No. 04-CV-3711-JTC (N.D. Ga. June 18, 2010) (order rejecting argument that end user did not perform step of "providing a parts washer . . ." and finding that by purchasing the parts washer, the end user had "chosen to 'provide' a parts washer").
24. *See* Table I on p. 8.
25. 614 F.3d 1367 (Fed. Cir. 2010).
26. *Id.* at 1380-81.
27. 2010 U.S. Dist. LEXIS 47290 (N.D. Cal. May 13, 2010).
28. *Id.* at *7-9, *21.
29. *Id.* at *9, *21.
30. 586 F. Supp. 2d 924, 930 (N.D. Ill. 2008).
31. *Id.* at 932-33.
32. *Id.*
33. *Id.*
34. *Id.* at 933.
35. *Id.*
36. *See* Table II on p. 9.
37. 614 F.3d 1367, 1382-83.
38. *Id.* at 1382 (*quoting* Maj. Op. at 8).
39. *Id.* at 1383.
40. *Id.*
41. 498 F.3d 1373, 1381 (Fed. Cir. 2007).
42. *Id.*

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## Table I

| Case | Sufficient Direction or Control |
|---|---|
| **1st Circuit** | |
| *Akamai Technologies, Inc., et al. v. Limelight Networks, Inc.*, 614 F. Supp. 2d 90 (D. Mass. 2009) | No |
| **2nd Circuit** | |
| *Travel Sentry, Inc. v. Tropp*, No. 06-CV-6415 (ENV)(RLM), 2010 U.S. Dist. LEXIS 94137 (E.D.N.Y. Sept.10, 2010) | No |
| *Desenberg v. Google, Inc.*, No. 08 Civ. 10121, 2009 U.S. Dist. LEXIS 66122 (S.D.N.Y. July 30, 2009) | Dismissed complaint for failure to state a claim as it did not allege sufficient direction or control |
| **3rd Circuit** | |
| *Gammino v. Cellco P'ship*, 527 F. Supp. 2d 395 (E.D. Pa. Oct. 4, 2007) | No |
| **4th Circuit** | |
| *Netscape Commc'ns Corp. v. Valueclick, Inc.*, 684 F. Supp. 2d 699 (E.D. Va. 2010) | Undecided |
| **5th Circuit** | |
| *Epicrealm Licensing, LP v. Franklin Covey Co.*, 644 F. Supp. 2d 806 (E.D. Tex. 2008) | No |
| *PA Advisors, LLC v. Google, Inc.*, No. 2:07-cv-480 (RRR), 2010 U.S. Dist. LEXIS 28500 (E.D. Tex. Mar. 11, 2010) | No |
| *Emtel, Inc. v. Lipidlabs, Inc.*, 583 F. Supp. 2d 811 (S.D. Tex. 2008) | No |
| **7th Circuit** | |
| *Qwest Corp. v. Centillion Data Sys., LLC*, No. 1:04-cv-73-LJM-WTL, 2008 U.S. Dist. LEXIS 18707 (S.D. Ind. Mar. 10, 2008) | No |
| *Fisher-Barton Blades, Inc., v. Blount, Inc.*, 584 F. Supp. 2d 1126 (E.D. Wis. 2008) | No |
| **8th Circuit** | |
| *The Friday Group v. Ticketmaster*, No. 4:08CV01203 JCH, 2008 U.S. Dist. LEXIS 100529 (E.D. Mo. Dec.12, 2008) | No |
| *Advanced Software Design v. Fiserv*, 650 F. Supp. 2d 924 (E. D. Mo. 2009) | No |

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## Table I, continued

| Case | Sufficient Direction or Control |
|---|---|
| **9th Circuit** | |
| *Medtronic, Inc. v. AGA Med. Corp.*<br>No. C-07-0567 MMC,<br>2009 U.S. Dist. LEXIS 36168 (N.D. Cal. Apr. 28, 2009) | No |
| *Ormco Corp. v. Align Tech., Inc.*,<br>609 F. Supp. 2d 1057 (C.D. Cal. 2009) | Undecided |
| *Phoenix Solutions, Inc. v. The DirecTV Group, Inc.*,<br>No. CV 08-984 MRP (SSx),<br>2009 U.S. Dist. LEXIS 114977 (C.D. Cal. Nov.23, 2009) | No |
| *Privasys, Inc., v. Visa Int'l*,<br>No. C 07-03257 SI,<br>2007 U.S. Dist. LEXIS 86838 (N.D. Cal. Nov. 14, 2007) | Yes |
| *Katz Tech. Licensing, L.P. v. The DirecTV Group, Inc.*,<br>No. 07-ML-1816-B-RGK (FFMx),<br>2009 U.S. Dist. LEXIS 72134 (C.D. Cal. May 1, 2009) | Undecided |
| *Zinus, Inc. v. Simmons Bedding Co.*,<br>No. C 07-3012 PUT,<br>2008 U.S. Dist. LEXIS 30791 (N.D. Cal. Mar. 11, 2008) | Yes |
| *Keithley v. The Homestore.Com, Inc.*,<br>636 F. Supp. 2d 978 (N.D. Cal. 2008) | No |
| **11th Circuit** | |
| *Global Patent Holdings, LLC v. Panthers BRHC LLC*,<br>586 F. Supp 2d 1331 (S.D. Fla 2008) | No |
| *McKesson Information Solutions LLC v. Epic Sys.Corp.*,<br>No. 1:06-CV-2965-JTC,<br>2009 U.S. Dist. LEXIS 88158 (N.D. Ga. Sept. 6, 2009) | No |

## Table II

| Case | Infringement |
|---|---|
| **1st Circuit** | |
| *Uniloc USA Inc. v. Microsoft Corp.*,<br>640 F. Supp. 2d 150 (D.R.I. 2009) | No |
| **3rd Circuit** | |
| *Girafa.com, Inc, v. IAC Search and Media*,<br>653 F. Supp. 2d 512 (D. Del. 2009) | Undecided (Denied SJ of noninfringement) |
| **4th Circuit** | |
| *Level 3 Commc'ns, LLC v. Limelight Networks, Inc.*,<br>630 F. Supp. 2D 654 (E.D. Va. 2008) | Yes |
| **9th Circuit** | |
| *kSolo, Inc. v. Gary Catona*,<br>No. 07-5213-CAS,<br>2008 U.S. Dist. LEXIS 95107 (C.D. Cal. Nov. 10, 2008) | Undecided |

# Accelerated Patent Examination: What Every Business Owner Needs to Know

The average pendency of a utility patent application is about three years from the time of filing, thanks in part to the large backlog of patent applications awaiting examination and an acute shortage of Examiners at the U.S. Patent and Trademark Office ("USPTO").[1] For business owners that quickly need a patent, this is not acceptable.

In an effort to expedite the prosecution of patent applications, the USPTO launched the Accelerated Examination ("AE") program in August 2006, with the goal of reaching a final decision within 12 months of filing for all applications filed under the program.[2] Since the creation of this program, a total of 3,863 AE petitions have been filed, of which more than 2,388 (61% total) were granted.[3] With respect to allowance rates, 80.3% of patent applications subject to accelerated examination during fiscal year 2009 (mid-year) were allowed. In contrast, only 41% of patent applications subject to standard examination were allowed for the same time period.[4] The average application prosecution time to final decision for AE program applications was less than 7 months, which is much less than half the amount of time seen with standard patent examination.[5]

Despite the success of the AE program, it is clearly underutilized and many business owners are not aware of the existence of the program. But while the AE program has its benefits, it is not for everyone. This paper discusses how the AE program works, aspects of the AE program that applicants need to be aware of, and under what circumstances a business owner should consider utilizing the AE program.

**How does the Accelerated Examination program work?**

The AE process involves three phases: the petition phase, the prosecution phase, and the final disposition phase. The USPTO provides detailed guidelines on its website on the procedural and substantive requirements for the AE program.[6] If an application meets the strict entry qualifications of the AE program and passes the initial petition phase, the application is granted special status and is taken up for examination in an expedited manner, generally in about two weeks. This is in contrast to the average three year pendency for an application not in the AE program.

Throughout the entire AE process, applicants can exert greater control over the application process by clarifying and focusing prosecution issues, and further enjoy earlier and more frequent interactions with the Examiner relative to the standard examination process. However, applicants forego certain procedural rights and assume heavier prosecution responsibilities and a not insignificant financial burden in exchange for the potential of a quickly issued patent.

To initiate the petition phase of the AE program, an applicant[7] must file:

1) a complete patent application;
2) a Petition asking the USPTO to make the patent application special under the AE program;
3) a Pre-examination Search Document, in which the applicant avers a prior art8 search was performed and discloses the search strategy used and the database(s) that were searched; and
4) an Accelerated Examination Support Document ("AESD"), wherein the applicant formally identifies all prior art to the USPTO, compares the filed claims to the relevant prior art, and explains why each claim is patentable in light of the disclosure contained in the prior art.

An applicant must also explain how the invention is useful (unless it is a design patent) and how the claims are supported by the patent application as filed. Sample templates for the Pre-examination Search Document and the AESD are available at the USPTO website.[9] Approximately two months after all of the above documents are filed, the USPTO will issue its decision on whether to allow the application entry in the AE program.

Once the application enters the AE program, it is forwarded to an Examiner for the prosecution phase of the AE program. During this phase, the Examiner will examine the application, consider the AESD, and conduct an independent search of the claimed subject matter to determine the sufficiency of the AESD. The Examiner has discretion to contact the applicant for an initial interview, typically within two weeks of granting of the Petition, if the Examiner believes that this would be helpful in expediting the examination and allowance of the application. During the initial interview, both the Examiner and the applicant discuss any issues relating to the application, including a preview of any rejections or objections the Examiner intends to make in the first Office action and how the applicant proposes to respond. After the Office action issues, the applicant is given only one month (not extendable) to reply. The applicant is also encouraged to contact the Examiner before and after the filing of the response in an attempt to resolve any outstanding issues. The Examiner then reaches a decision on the case which could include either a Notice of Allowance or a final Office action. If a final Office action issues, the applicant can file a Notice of appeal and proceed with the appeal process, file a Request for Continued Examination ("RCE"), or abandon the case. It should be noted that the issuance of a Notice of Allowance or final Office action, the filing of the RCE, or abandonment is considered a "final decision," and if any of these events occur within 12 months of the filing of the application, the goal of the AE program has been met.

**The Accelerated Examination program is not for everyone**

Although the AE program allows applicants a

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speedy evaluation of an application with final disposition within 12 months, the strict procedural and substantive requirements need to be considered and weighed against the potential benefits of using the AE program.

***Burdensome requirements and risk of prosecution history estoppel***

In addition to the requirements of conducting a complete prior art search and providing an AESD to the USPTO (which tends to be expensive), the AE system also places limitations on applications eligible for AE, the time the applicant has to respond, and the manner of filing (electronic filing only).[10]

With respect to the type of applications that eligible for AE, only non-reissue utility or design patent applications are eligible; U.S. national phase applications based on a PCT international application are not eligible for the AE program. Further, the application must be complete and in condition for examination (*e.g.*, all fees must be paid upfront and executed inventor(s) declaration(s) must be included). Additionally, applications in the AE program are limited to 20 claims with a maximum of three independent claims ("the 3/20 rule"), and the claims must be directed to one invention only. If the Examiner believes that that claims are drawn to multiple inventions and imposes a restriction requirement, AE applicants are not allowed to separately argue for the patentability of any dependent claim and must agree to an election of a single invention, without traverse. An AE applicant also has only one month (non-extendable) to respond to an Office action; in contrast, for applications not in the AE program, an applicant has three months (plus an additional three month extension of time maximum) in which to respond to an Office action.

Once the Petition for accelerated examination is granted and the application enters the AE program, it is not possible to withdraw the application from the AE program. However, the applicant may expressly abandon the AE application in favor of a continuation application. But the continuation application will be a regular application, *i.e.*, it will not be in the AE program. If the applicant wants to prosecute the continuation application in the AE program, a new petition requesting admission to the AE program, along with all of the aforementioned documents, must be filed.

The procedural requirements are strict and many petitions for accelerated patent examination are dismissed or denied for failure to satisfy to these requirements.[11] If there are deficiencies found with the substance of the Petition, *e.g.*, the content of the Pre-examination Search document or AESD, the Petition is typically dismissed and the applicant is given a single opportunity to correct the problem within one month (non-extendable).[12] If the problem is not resolved to the USPTO's satisfaction, the application is denied entry into the AE program and it remains a regularly-filed application subject to standard examination procedures. If the applicant filed an application having claims in excess of the 3/20 rule, filed the application by paper, or the application is incomplete (*e.g.*, missing an abstract or executed inventors declaration) the Petition is denied and the application remains a regularly-filed application, awaiting its regular turn for examination. An important consideration for would-be AE filers is that all arguments and admissions made in the AESD for applications denied entry into the AE program become part of the official record of the application and can be used by the Examiner during regular examination as well as serve as "prosecution history estoppel" in any future litigation.[13]

snippets

Although the Accelerated Examination program allows applicants a speedy evolution of an application, the strict procedural and substantive requirements need to be considered and weighed against the potential benefits of using the program.

***The 12-month goal is not guaranteed***

The goal of accelerated examination program is to have a final decision reached with 12 months from the filing of the application. The final decision doesn't mean, however, that the accelerated examination will happily conclude with an allowance of the application. A final decision also includes the issuance of a final Office action, the filing of an RCE, or abandonment of the application.[14] In addition, if the application becomes involved in a proceeding that is outside the normal examination procedure, such as a secrecy order or interference proceeding, the application will not be treated as accelerated during those proceedings.

***AE costs can be high***

AE costs could be higher relative to standard examination costs for the same application and such costs are incurred early in the application process. These higher costs are mostly attributable to the requirements of performing a complete prior art search and preparing the pre-examination support document (*i.e.*, the AESD), which requires a detailed analysis and write up explaining why the claims are patentable in light of the results of the literature search.

Furthermore, the pre-examination search must encompass the full breadth of the claims. If the claims are amended during

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examination and if the original search did not encompass those amendments, the applicant will need to conduct an additional prior art search and supplement the original search and support documentation.[15]

Although the initial costs of AE may be higher than standard patent examination, these higher costs may be offset by the shorter prosecution time, which allows the applicant to bypass the costs associated with a long and protracted prosecution.

***Potential risk of inequitable conduct***

A not insignificant risk associated with the AE program is that if a patent ultimately issues and is asserted against an infringer, the infringer may accuse the patentee of inequitable conduct. More specifically, an accused infringer would allege that the patentee failed to conduct a proper literature search or mischaracterized the nature or teachings of a reference. If the infringer successfully asserts inequitable conduct, the patent will be voided by the court. Of course, the same issues may occur when an application is filed using the standard examination route. However, when an applicant voluntarily submits references to the USPTO during normal prosecution (by filing an Information Disclosure Statement), the applicant is not required to comment on the disclosure contained in a particular reference; in the AE program, an applicant must characterize the teachings of relevant references and explain why the claims are patentable over those teachings. While being accused of inequitable conduct is of concern to all applicants, it should be noted that significant changes in the laws surrounding inequitable conduct have occurred, thereby making it more difficult, if not impossible, to plead inequitable conduct as a defense prior to actually having information that inequitable conduct has in fact occurred.[16]

**When should a business owner consider using the AE system?**

Despite the potential drawbacks, AE may be appropriate in a number of cases. For some business owners, the quick issuance of a patent may be strategically important to: 1) secure capitalization from an investor, 2) commercialize products quickly, 3) prevent infringing products from entering the market and capturing market share, and/or 4) enhance leverage during licensing and business negotiations. The Accelerated Examination process is also particularly useful with products having short life cycles, such as consumer products, computer software, and network equipment. Additionally, it is well known that in certain technological areas, *e.g.*, business methods, biotech, and pharmaceutical inventions, an application may not receive a first Office action until four or more years after filing because of the aforementioned backlog at the USPTO. In such instances, the increased costs, burden, and other potential drawbacks associated with the AE procedure may be outweighed by the prospect of reaching a final disposition within twelve months.

**Conclusion**

USPTO delays in issuing patents pose a serious challenge in cases where patent protection is needed immediately for product launches, litigation, and leverage in licensing and business negotiations. While the AE system is a useful fast-track procedure that allows applicants to expedite and potentially cut the examination time of their patent applications to significantly less than half the standard time, it is more expensive than normal prosecution and it is not for everyone. But business owners who understand how and when to use the AE system can benefit significantly and achieve tactical advantages over their competitors by using it.

***Endnotes***

1. 2009 USPTO Annual Report, page 37, available at http://www.uspto.gov/about/stratplan/ar/index.jsp.
2. Official Gazette Notice: July 18, 2006.
3. http://www.uspto.gov/patents/process/file/accelerated/ae_stat_charts.pdf (as of July 10, 2010 update).
4. *Id.*
5. PPAC Patent Operations Update of 6/18/09, available at http://www.uspto.gov/about/stratplan/ar/index.jsp.
6. http://www.uspto.gov/patents/process/file/accelerated/index.jsp.
7. In the U.S., a patent application is filed in the name of the inventor or inventors. For simplicity sake, the term "applicant" will be used herein to refer to a single applicant or more than one applicant.
8. The term "prior art" refers to all information that has been disclosed to the public in any form about an invention before a given date. Prior art includes things like patents, published articles, and public demonstrations of the invention.
9. http://www.uspto.gov/patents/process/file/accelerated/index.jsp.
10. http://www.uspto.gov/patents/process/file/accelerated/ae_guidelines_120607.pdf.
11. As of July 20, 2010, approximately 34% of all AE petitions filed were either denied or dismissed. *See* http://www.uspto.gov/patents/process/file/accelerated/ae_stat_charts.pdf.
12. 37 CFR § 1.136(a).
13. *See, e.g., Vitronics Corp. v. Conceptronic, Inc.*, 90 F.3d 1576, 1582 (Fed. Cir. 1996).
14. MPEP § 708.02(a).
15. *Id.*
16. *See Exergen Corp. v. Wal-Mart Stores, Inc.*, 575 F.3d 1312, 1327 (Fed. Cir. 2009).

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# New (Limited) Duty of Candor in the EPO (Amended European Rule 141)

In December 2009, the European Patent Office ("EPO") announced in the Official Journal the amendment of Rule 141 and the insertion of new Rule 70b.[1] These changes to the European Patent Convention ("EPC") modify the requirements for supplying search results on priority applications, introducing a limited duty of candor to the EPO. While Article 124 of the EPC currently allows the EPO to invite an applicant to provide information on prior art cited on related applications,[2] the new Rules add more teeth to the provision by requiring, rather than merely inviting, search information on related applications. This article examines the language of, and describes what is required under, the new Rules, which will apply to direct European patent applications and national phase PCT applications filed on or after January 1, 2011,[3] and proposes some practical considerations for EPO applicants and practitioners in preparing for these changes.

**Amended Rule 141 - Information on Prior Art**

The most substantial change is Amended Rule 141(1), which requires an applicant to provide a copy of the results of any search that was carried out on a priority application when filing a European application or when entering the regional phase in Europe.[4] Upon reading the Rule, it is not clear as to exactly what is meant by "a copy of the results of any search carried out by the authority with which the previous application was filed…." If the priority document is a U.S. utility application, would submitting a copy of the Notice of References Cited (PTO-892) from an Office action be sufficient, or would the Applicant also be required to provide a copy of the Office action issued by the U.S. Patent Office? The EPO has not yet provided clarification of this language in Rule 141(1).

In cases where multiple priorities are claimed, search results must be disclosed for each priority application. If the results are unavailable upon filing, they must be filed "without delay after such results have been made available."[5] Under Rule 141(1), the EPO requires a copy of the search results in whichever form they originally issued, such as a search report, a listing of cited prior art, or the relevant part of the examination report. According to the language of the Rule as compared to Rule 141(3) (discussed below), it appears that a simple listing of the cited prior art is not acceptable. However, a translation of the search results is not required, and copies of the cited prior art are also not required.

snippets

Under the Amended EPO Rules, the burden is not as significant as the U.S. disclosure practice.

Rule 141(2) eases the burden on what the applicant is required to provide, establishing that search results already "available to the European Patent Office" need not be disclosed.[6] As such, Rule 141(2) allows the Rule 141(1) requirement to be fulfilled where search results are already available to the EPO. The EPO recently issued a decision stating that the applicant shall be exempted from filing a copy of the search results under Rule 141(1) if the search was carried out by the EPO or national patent offices of Belgium, Cyprus, France, Greece, Italy, Luxembourg, Malta, Netherlands, or Turkey.[7]

Rule 141(3) empowers the examiner to request the applicant to provide "… information on prior art taken into consideration in national or regional patent proceedings and concerning an invention to which the European patent application relates."[8] The language of Rule 141(3) merely requires "information on prior art," which is different than Rule 141(1), and thus it appears that a simple listing of prior art will be acceptable to satisfy a Rule 141(3) request. The examiner retains discretion to issue a Rule 141(3) request, but once the request has been issued, the prior art information must be submitted within two months.[9] Failure to submit a response will result in the application being deemed withdrawn.[10] In contrast to Rule 141(1), the examiner can issue multiple requests at later times during prosecution of the application under Rule 141(3).

**Rule 70b - Failure to Provide Search Results Under Rule 141**

New Rule 70b establishes the enforcement procedure for instances where search results have not been provided under Rule 141(1) and are not deemed to be available to the EPO under Rule 141(2). Upon recognition of the applicant's non-compliance with Rule 141, Rule 70b(1) empowers the Examining Division to issue an invitation to provide the required search results.[11] The invitation sets a two-month reply period in which the applicant must file either a copy of the required search results under Rule 141(1) or a statement that the search results are not available to the applicant.[12] It should be noted that the wording of Rule 70b does not appear to allow for extensions of time in which to file a copy of the search results. Consequently, and until otherwise instructed by the EPO, applicants and their attorneys must assume that the two month deadline

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# New (Limited) Duty of Candor in the EPO (Amended European Rule 141)

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is non-extendable. Rule 70b only addresses Rules 141(1) and 141(2) and applies "at the time the Examining Division assumes responsibility," indicating that Rule 70b seeks to prohibit initiation of examination without available search reports.[13] Failure to comply with a Rule 70b request will result in the application being deemed withdrawn.[14]

**Practical Considerations**

While the Amended EPO Rules may remind some of the Information Disclosure Statement (IDS) practice in the United States Patent and Trademark Office ("USPTO"), the language of the Rules indicate that the burden is not as significant as the U.S. disclosure practice, because, for example, the duty is not ongoing and copies of the cited art do not have to be supplied to the EPO. Nonetheless, it is clear that Rule 141(1) can be read as creating a duty of candor for priority applications. However, unless the search reports are not yet available, the duty to provide the search reports to the EPO applies only at the time of filing. Further, in practice, Rule 141(1) may have only a limited effect on many applicants since search reports do not issue on many priority applications, such as U.S. Provisional applications. Rule 141(3) also does not appear to establish an ongoing duty of candor to the EPO, and thus, once a reply has been submitted to the EPO, the obligation under Rule 141(3) is fulfilled. However, it is important to remember that the EPO can issue a request under Rule 141(3) at any time during prosecution of the application.

Additionally, the Amended EPO Rules do not require the submission of search results for related, non-priority documents. Thus, if a U.S. utility application is filed on the same day as a PCT application (on or after January 1, 2011), and an Office action issues in the U.S. case before the PCT application enters the European regional phase, the duty of candor owed to the EPO is not implicated and the U.S. search results do not have to be reported to the EPO. However, out of an abundance of caution, it may be prudent to send the results to the European attorney responsible for the case.

However, if the priority document is a non-provisional U.S. patent application, and the PCT/direct European filing is made before the issuance of the results of the first search, *i.e.*, the first Office action from the USPTO, the U.S. attorney should docket a reminder to promptly submit the search results to his/her European counterpart.

Regardless of the limited scope of Rule 141, when filing either a direct European application or a PCT application on or after January 1, 2011, an applicant should provide to her/his European counsel a copy of all search results for all priority applications. In addition, as patent attorneys acquire new EPO cases, they should carefully note whether there are any priority claims in the application. If at least one priority application exists, they should immediately acquire a copy of any search results issued on the priority applications and forward the results to the European counsel.

***Authors' Note***

While the authors address EPO practice, the authors are not European Patent Attorneys. For a more complete analysis, we recommend contacting a licensed European Patent Attorney. We wish to thank Gill Smaggasgale from W. P. Thompson & Co. law firm, for her help in reviewing this article.

***Endnotes***

1. Decision of the Administrative Council of 28 October 2009 amending the Implementing Regulations to the European Patent Convention (CA/D 18/09), OJ EPO 12/2009, 585-6.
2. Rule 125 EPC.
3. *See supra* Note 1, Article 2(2).
4. Rule 141(1).
5. *Id.*
6. Rule 141(2).
7. Decision of the President of the European Patent Office dated 5 October 2010 on the filing of copies of search results under Rule 141(1) EPC - utilisation scheme, *available at* http://www.epo.org/patents/law/legal-texts/journal/president/archive/20101020.html.
8. Rule 141(3).
9. *Id.*
10. *Id.*
11. Rule 70b(1).
12. *Id.*
13. *Id.*
14. Rule 70b(2).

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