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ANNUAL IP UPDATE – PATENTS

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SIGNIFICANT U.S. COURT DECISIONS

INEQUITABLE CONDUCT

***Therasense Inc. v. Becton, Dickinson and Co.*, No. 2008-1511 (Fed. Cir. May 25, 2011) (en banc)**

Significance: *Therasense* raises the bar for proving the elements of inequitable conduct. The new standard requires evidence of both intent and materiality. The materiality test is a “but-for” standard (i.e. the patent claim at issue would not have been allowed had the Examiner been aware of the undisclosed prior art) except in cases of affirmative egregious misconduct.

Current Status: In a 6-1-4 decision while sitting *en banc*, the U.S. Court of Appeals for the Federal Circuit (CAFC) vacated the District Court’s finding of inequitable conduct and remanded the case for further proceedings consistent with its opinion. The deadline for seeking *certiorari* was August 23, 2011 and none appeared to have been sought.

Background

The facts described here are specific to the issue of the inequitable conduct doctrine. Other case details have been omitted.

In 1984, Therasense (the Appellant) filed a patent application generally directed to a test strip with an electrochemical sensor for testing whole blood *without a membrane* over the electrode. The application eventually issued as U.S. Patent No. 5,820,551 (the ‘551 patent) after a lengthy prosecution that spread over thirteen years.

In 1997, in order to distinguish over its own prior U.S. Patent No. 4,545,382 (the ‘382 patent), Therasense argued that the ‘382 patent required a protective membrane. The ‘551 patent was subsequently issued. However, Therasense had represented to the European Patent Office (EPO) on two previous occasions that the European counterpart to the ‘382 patent *does not* require a diffusion-limiting membrane.

The trial court found the ‘551 patent unenforceable on the basis of inequitable conduct, for failure by Therasense to disclose to the US Patent and Trademark Office (USPTO) the representations it made to the EPO. A panel of the CAFC unanimously upheld the judgments of noninfringement and invalidity. The panel also affirmed the judgment of unenforceability.

History of the Inequitable Conduct Doctrine

Inequitable conduct is an equitable defence to patent infringement. This judge-made doctrine evolved from the doctrine of unclean hands to dismiss patent cases involving egregious misconduct (including perjury), the manufacture of false evidence, and the suppression of evidence.

Inequitable conduct eventually came to embrace an even broader scope of misconduct (e.g., including the mere nondisclosure of information to the USPTO) and to adopt a different and more potent remedy: unenforceability of the entire patent rather than mere dismissal of the instant case. Although, such a remedy required a finding of both intent to deceive and materiality.

Over time, the standards for intent to deceive and materiality have fluctuated, from the low standard of gross negligence or even simple negligence, to a broad view of materiality using a “reasonable examiner” standard, and further to a “sliding scale” (i.e. a patent is likely to be unenforceable if there is a reduced showing of intent but a strong showing of materiality).

Decision

In a precedent-setting decision made while sitting *en banc*, the CAFC tightened the standards for finding both intent and materiality. The court further clarified that intent and materiality are separate requirements. As such, a “sliding scale” standard should not be used.

With respect to the standard for intent, the CAFC clarified that:

- (i) The accused infringer must prove, with clear and convincing evidence, that the patentee acted with the specific intent to deceive the USPTO. More specifically, a misrepresentation or omission amounting to negligence or gross negligence under a “should have known” standard is insufficient.
- (ii) Intent may also be inferred from indirect and circumstantial evidence, but not solely from materiality. However, to meet the clear and convincing evidence standard, the specific intent to deceive must be “the single most reasonable inference able to be drawn from the evidence”.

With respect to the standard for materiality:

- (i) The CAFC adopted a “but-for” materiality standard. When assessing materiality of a withheld reference, the focus of the courts is whether the USPTO would have allowed the claim had it been aware of the undisclosed reference. Essentially, the courts are determining the patentability of the claim and thus, should apply the preponderance of the evidence standard and give claims their broadest reasonable construction.
- (ii) One exception to the “but-for” materiality requirement is in cases of affirmative egregious misconduct, such as “deliberately planned and carefully executed scheme[s]”. In any such cases, the misconduct is material.

Further, the CAFC recognized the significance of the remedy of the inequitable conduct doctrine, and even analogized it to the “atomic bomb” of patent law. Accordingly, the CAFC wanted to ensure that the doctrine is applied only in instances where the patentee’s misconduct resulted in the unfair benefit of receiving an unwarranted claim.

Consequent USPTO Practice Notice

On July 21, 2011, the USPTO issued a notice in the Federal Register (76 Fed. Reg. 43631) proposing to change its materiality standard for the duty to disclose information in patent applications and re-examination proceedings (e.g. §§1.56(b) and 1.555(b)) to be consistent with the materiality standard as defined in the *Therasense* decision. The USPTO solicited for comments from the public on this proposed rule change until September 19, 2011.

Subsequent Treatment:

American Calcar Inc. v. American Honda Motor Co., No. 2009-1503 (Fed. Cir. June 27, 2011)

Significance: This is the first decision addressing the issue of inequitable conduct since *Therasense*.

Background

The inequitable conduct issues in this case revolved around American Calcar’s family of related patents, each of which share a common specification. One patent (U.S. Patent No. 6,330,497, “the ‘497 patent”) is directed to a “three-status” feature in a vehicle computer system and the other two patents (U.S. Patent Nos. 6,438,465 and 6,542,795, “the ‘465 and ‘795 patents”, respectively) are directed to a “search” feature on the system.

Prior to filing the patent applications, the inventors examined an Acura 96RL vehicle that contained a navigation system with features similar to those later claimed in the ‘497, ‘465 and ‘795 patents. The inventors never informed their patent attorney of their complete experience with the Acura 96RL model. The inventors disclosed the navigation aspect of the Acura 96RL computer system in the background section of their applications, but failed to disclose the “three-status” and “search” aspects of the Acura 96RL system.

It was based on this failure to disclose that the District Court found inequitable conduct.

Decision

The CAFC affirmed the District Court’s finding of materiality with respect to the ‘497 patent, but remanded for further findings on materiality with respect to the ‘465 and ‘795 patents and also on intent with respect to all three patents.

The CAFC accepted that, even under the “but-for” standard of *Therasense*, the District Court correctly found materiality with respect to the ‘497 patent. The jury had found that the asserted claims of the ‘497 patent were anticipated by the 96RL system.

However, the CAFC could not determine materiality with respect to the ‘465 and ‘795 patents. The withheld information may be material because it might have prevented allowance under the USPTO’s preponderance of the evidence standard. Accordingly, the CAFC remanded to the District Court to assess materiality under a “but-for” standard while applying the evidentiary standard and claim scope used by the USPTO.

As for the issue of intent, the CAFC concluded that the District Court relied on an incorrect standard. Specifically, the CAFC noted that the “sliding scale” standard was rejected *en banc* in *Therasense* and that the District Court had applied this standard by basing its finding of intent significantly on the materiality of the 96RL system to the claimed invention. Thus the CAFC remanded the issue of intent for further consideration in light of *Therasense*.

***Cancer Research Technology Ltd. v. Barr Laboratories Inc.*, 625 F.3d 724 (2010), No. 2010-1204 (Fed. Cir. November 9, 2010)**

Significance: A divided CAFC imposed new and rigid limitations on the doctrines of prosecution laches and inequitable conduct. The CAFC split 5-5 over whether to rehear this issue *en banc*. A petition for *certiorari* (Supreme Court No. 11-131) is currently before the Supreme Court (Respondents’ brief was filed on September 30, 2011).

The question in the petition that is relevant to the issue of inequitable conduct was as follows:

Whether, in analyzing whether a patent is unenforceable due to inequitable conduct, the finder of fact may rely on the same piece of evidence as proof of both materiality and intent.

Background

The Applicant had co-authored articles that contradict the disclosure of the patent at issue.

Decision

With respect to inequitable conduct, the majority held that a court may not, as a matter of law, use the same piece of evidence to find both materiality and intent. Further, the CAFC stated that a District Court must find some other evidence that indicates the applicant appreciated the materiality of the withheld information. The CAFC found that the District Court erred because it relied solely on its finding of materiality to infer intent. The mere existence of the articles was held to be insufficient to establish that they were withheld with the intent to deceive the USPTO.

PRESUMPTION OF VALIDITY OF ISSUED PATENTS

Microsoft Corp. v. i4i Ltd. Partnership et al. (Supreme Court No. 10-290) (June 9, 2011)

Significance: The Supreme Court upheld a long-standing precedent that only clear and convincing evidence can overcome the presumption that patents issued by the USPTO are valid.

Background

In 2007, i4i sued Microsoft for infringement of its U.S. Patent No. 5,787,449. The patent relates to a method for editing electronic documents that stores the document content separately from metacodes associated with the document's structure.

Microsoft argued that the i4i patent was invalid under the on-sale bar of 35 USC § 102(b) because i4i sold a software program (known as S4) incorporating the patented invention more than one year before the effective filing date of the i4i patent. At trial, Microsoft failed to prove by clear and convincing evidence that the S4 product embodied the patented invention because, among other things, the source code for the S4 program was destroyed long before the litigation began.

The jury found that Microsoft infringed the i4i patent and that the patent was valid. The CAFC upheld the jury verdict.

Arguments

At the U.S. Supreme Court, Microsoft argued:

- (i) that the law should be changed to adopt a lower standard for invalidity based on a preponderance of evidence; and
- (ii) in the alternative, the lower standard for invalidity should at least apply where the evidence put forward to invalidate the patent was not before the USPTO during the patent examination process, as was the case with the S4 product.

Decision

The Supreme Court upheld an injunction barring Microsoft from selling infringing versions of Word and a damages award of approximately \$300 million, including interest.

In upholding the injunction against Microsoft, the Supreme Court provided the following responses to Microsoft's arguments:

- (i) With respect to the adoption of a lower standard for invalidity, the Supreme Court affirmed that only clear and convincing evidence can overcome the presumption that patents issued by the USPTO are valid. Specifically, the Supreme Court found that the clear and convincing evidence standard has been part of the common law for decades and was intentionally codified by

Congress in 35 USC § 282. The same standard has been applied for many years by the CAFC. Consequently, this decision by the Supreme Court confirms and maintains the status quo.

- (ii) Despite the foregoing, the Supreme Court did note that evidence that was not before the USPTO during examination may carry greater weight and thus assist the accused infringer to meet the clear and convincing standard.

DAMAGES: 25% RULE FOR ROYALTY CALCULATION

***Uniloc v. Microsoft Corp.*, 632 F.3d 1292 (2011), No. 2010-1035 (Fed. Cir. January 4, 2011)**

Significance: The CAFC rejected the use of the 25% “rule of thumb” for calculating a reasonable royalty for purposes of infringement damages. The rule of thumb is based on the proposition that 25% of the value in a product goes to the patent owner and the other 75% remains with a hypothetical licensee. The CAFC also held that the ‘entire market value rule’ cannot be relied upon if the patentee is unable to show that the patented features are responsible for the consumer demand for the product as a whole.

Current Status: A petition for a panel rehearing and rehearing *en banc* was denied on May 16, 2011.

Background

Uniloc owns U.S. Patent No. 5,490,216 (the ‘216 patent) which is directed to a software registration system to deter “casual copying” of software in which users install copies of a software program on multiple computers. Uniloc alleged that Microsoft’s Product Activation feature for Microsoft’s Word XP, Word 2003 and Windows XP software programs infringed the ‘216 patent.

At the District Court, the jury returned a verdict of infringement and validity of the ‘216 patent, and found Microsoft’s infringement to be wilful. The jury awarded Uniloc \$388 million in damages. The damages amount was based on the testimony of Uniloc’s expert.

Uniloc’s expert determined that the damages should be about \$565 million based on a hypothetical negotiation between Uniloc and Microsoft, as well as the *Georgia-Pacific* factors (i.e. fifteen factors first set out in *Georgia-Pacific Corp. v. U.S. Plywood Corp*, 318 F. Supp. 1116 (S.D.N.Y. 1970) for determining appropriateness of any award of reasonable royalties). The expert came to this value by using the lowest appraised value of a Product Key (part of Microsoft’s Product Activation feature) and applying the 25% “rule of thumb”. The *Georgia-Pacific* factors were used to adjust the 25% value.

Finally, the expert applied the “entire market value rule” to “check” against his royalty calculations.

The “entire market value rule” allows a patentee to recover damages based on the full value of a multifaceted device that incorporates even a single patented element, where the patented element is the basis for the demand for that product, or where it substantially creates the value of the component parts.

The District Court did note that the 25% “rule of thumb” is perplexing but continued to use the rule because it has been widely accepted.

Decision

The CAFC held that the 25% “rule of thumb” is a fundamentally flawed tool for determining a baseline royalty rate in a hypothetical negotiation. Specifically, the rule of thumb fails to tie a reasonable royalty base to the facts of the case at issue. There should be some association with the royalty rates used in prior licenses. The 25% rule fails to consider a particular hypothetical negotiation or reasonable royalty involving any particular technology, industry, or party. In fact, the rule is “an abstract and largely theoretical construct”.

In contrast, the CAFC noted that the *Georgia-Pacific* factors have been sanctioned for use in the reasonable royalty inquiry precisely because those factors properly tie the reasonable royalty calculation to the facts of the hypothetical negotiation at issue.

Further, the CAFC confirmed that the “entire market value rule” is not intended for minor patented improvements and more specifically, using the entire market value as a “check” against the royalty rate calculations does not alter the proper use of the rule.

INDUCEMENT TO INFRINGE

Global-Tech Appliances Inc. et al. v. SEB S.A. (Supreme Court No. 10-6) (May 31, 2011)

Significance: In an 8-1 decision, the Supreme Court held that the knowledge element for inducement of infringement under 35 U.S.C. § 271(b) can be met by a showing of “wilful blindness”.

Background

In 1991, SEB (the Respondent) obtained a U.S. patent for its design of a “cool-touch” deep fryer. SEB began manufacturing the fryer and selling it in the U.S. under its well-known “T-Fal” brand.

In 1997, Sunbeam Products Inc., a U.S. competitor of SEB, asked Pentalpha Enterprises Ltd. (the Petitioner in this case) to supply it with deep fryers meeting certain

specifications. Pentalpha purchased an SEB fryer in Hong Kong, which bore no U.S. patent markings as the fryer was manufactured for sale in a foreign market, and copied all but the cosmetic features. Further, Pentalpha retained an attorney to conduct a right-to-use study without telling the attorney that its design was copied directly from that of SEB. In August 1997, the attorney, failing to locate SEB's patent, issued an opinion letter stating that Pentalpha's fryer did not infringe any of the patents he had found. In the same month, Pentalpha started selling its fryers to Sunbeam, which resold them in the U.S. under its trademarks.

In March 1998, SEB sued Sunbeam alleging that Sunbeam's sales infringed SEB's patent. Sunbeam notified Pentalpha of the lawsuit in April 1998. Pentalpha, however, continued to sell fryers to other competitors of SEB who, in turn, went on to sell the product in the U.S. under their respective trademarks. SEB then sued Pentalpha on two grounds as follows: (1) that Pentalpha directly infringed SEB's patent by selling or offering to sell its fryers, and (2) that Pentalpha actively induced Sunbeam and its other competitors to sell or to offer to sell Pentalpha's fryers in violation of SEB's patent rights.

Judicial History

At trial, the jury found in favour of SEB on both grounds and also found that Pentalpha's infringement had been wilful. Pentalpha filed post-trial motions seeking a new trial or judgment as a matter of law on several grounds, specifically, that there was insufficient evidence to support the jury's finding of induced infringement under 35 U.S.C. § 271(b) because Pentalpha did not actually know of SEB's patent until it received the notice of the Sunbeam lawsuit in April 1998.

The District Court and the CAFC both rejected Pentalpha's argument. The CAFC stated that induced infringement under 35 U.S.C. § 271(b) requires a "plaintiff to show that the alleged infringer knew or should have known that its actions would induce actual infringement and that this showing includes proof that the alleged infringer knew of the patent". The CAFC found adequate evidence to support a finding that Pentalpha deliberately disregarded a known risk that SEB had a protective patent – and that "such disregard is not different from actual knowledge".

In the petition for *certiorari*, Pentalpha argued that active inducement liability under 35 U.S.C. § 271(b) requires actual knowledge of the patent.

Decision

Despite having used a different standard, the Supreme Court concluded that the evidence, when considered under the appropriate standard of review, also meets the wilful blindness standard.

In particular, the Supreme Court relied on the text of 35 U.S.C. § 271(b), which states that "[w]hoever actively induces infringement of a patent shall be liable as an infringer."

Engaging in statutory interpretation, the Court inferred that at least some intent is required, and held that induced infringement requires knowledge that the induced acts constitute patent infringement. However, the Court noted that the knowledge requirement can be satisfied by wilful blindness. The doctrine of wilful blindness requires two basic elements: (1) the defendant must subjectively believe that there is a high probability that a fact exists; and (2) the defendant must take deliberate actions to avoid learning of that fact.

OWNERSHIP RIGHTS AND THE *BAYH-DOLE ACT*

Board of Trustees of the Leland Stanford Junior University v. Roche Molecular Systems Inc. (Supreme Court No. 09-1159) (June 6, 2011)

Significance: The Supreme Court clarified the ownership rights in inventions funded by grants from the U.S. Federal Government by affirming that the *University and Small Business Patent Procedures Act of 1980* (also known as the *Bayh-Dole Act*) does not alter the long-standing principle in patent law that a third party may acquire a right to an invention only through an assignment by the inventor. That is, the *Bayh-Dole Act* does not automatically vest the title of the patent in the organization. The Supreme Court did not disturb the Federal Circuit finding that the present assignment language of one assignment signed by the inventor trumps the future assignment language of an earlier assignment signed by the inventor.

Background

A Stanford researcher (Mark Holodniy), as part of his employment agreement, signed a contract to assign all future inventions to Stanford. Holodniy's work for Stanford was federally funded. However, Holodniy performed his research at Cetus labs. Cetus was later acquired by Roche. As a condition for performing the work at Cetus labs, Holodniy signed a second agreement assigning rights in his inventions to Cetus. The Stanford assignment used future assignment language ("agree to assign"), while the Cetus assignment used present assignment language ("do hereby assign").

Stanford later obtained several patents for Holodniy's research, and sued Roche for patent infringement. Roche's defence was that, as a co-owner, it could not be held liable for patent infringement. This argument was upheld by the CAFC. The Federal Circuit held in favour of Roche as a matter of contract law, finding that the Cetus present assignment language trumped the future assignment language of the Stanford assignment.

Stanford argued that patent rights to inventions automatically vest in the federally funded contractor under the *Bayh-Dole Act*. The *Bayh-Dole Act* allocates rights in federally funded "subject inventions" between the Federal Government and federal

contractors. It also provides that contractors may “elect to retain title to any subject invention”.

Decision

In a 7-2 decision, the Supreme Court held that a federally funded contractor does not necessarily own the patent rights to inventions resulting from federally funded projects.

The majority opinion of the Supreme Court did not undertake an examination of the assignment agreements. Accordingly, it did not disturb the finding of the Federal Circuit that the present assignment language of the Cetus assignment trumps the future assignment language of the earlier Stanford assignment.

The Supreme Court rejected Stanford’s argument as both against the tradition of patent law and not in accordance with the statute. Instead, the Supreme Court confirmed that, since 1790, U.S. patent rights have always initially vested in the inventor and thus, the non-specific language of the *Bayh-Dole Act* does not change this initial vesting of rights. Moreover, mere employment is not enough to convey title to an invention from the employee to the employer, unless there is an agreement to the contrary.

Accordingly, the *Bayh-Dole Act* does not confer title to federally funded inventions on contractors or authorize contractors to unilaterally assert title to those inventions. Rather, it simply assures contractors that they may keep title to whatever it is they already have (e.g., through assignments and employment agreements). That is, only when an invention belongs to the contractor does the *Bayh-Dole Act* come into play: between the contractor and the federal government.

POST-BILSKI

CLS Bank Int’l v. Alice Corp. Pty. Ltd., No. 07-974, 2011 WL 80207 (D.D.C. March 9, 2011)

Significance: In light of *Bilski v. Kappos*, 130 S. Ct. 3218 (2010) (*Bilski*), the District Court declared four patents invalid as directed to unpatentable subject matter under 35 U.S.C. § 101 as “abstract ideas” even though the claims at issue specifically recited the method to be implemented using a computer. Notably, the system claims were also held to be invalid as unpatentable subject matter.

Current Status: Alice Corporation (herein referred to as “Alice”) filed a Notice of Appeal on March 18, 2011 with the CAFC (Case No. 07-CV-974; Appeal No. 2011-1301). The case is pending disposition.

Background

Alice claimed that CLS Bank infringed four patents (namely, U.S. Patent No. 7,149,720, No. 6,912,510, No. 5,970,479, and No. 7,725,375) directed to methods, systems, and computer-program products for employing a computerized intermediary (i.e. a trusted third party) to facilitate the simultaneous exchange of obligations in order to minimize risk that only one party's obligation will be paid. An exemplary method claim from U.S. Patent No. 6,912,510 is provided below:

1. A method of exchanging an obligation between parties, wherein an exchange obligation is administered by a supervisory institution, and wherein at least one credit record and one debit record is maintained with an exchange institution, the method comprising:
 - (a) maintaining a shadow credit record and a shadow debit record for a party to be held independently by the supervisory institution from the exchange institution;
 - (b) for every transaction resulting in an exchange obligation, the supervisory institution **electronically adjusting said shadow credit record and/or shadow debit record**, allowing only those transactions that do not result in a value of said shadow debit record being less than a value of said shadow credit record; and
 - (c) at the end of a period of time, the supervisory institution providing an instruction to the exchange institution to credit and/or debit in accordance with said adjustments of said allowed transactions, wherein said instruction being an irrevocable, time invariant obligation placed on the exchange institution. [Emphasis added]

In response, CLS Bank moved for summary judgment, contending that all patent claims asserted by Alice were invalid as directed to non-statutory subject matter. Specifically, CLS Bank argued that Alice's claims are directed to an abstract idea, that is, the exchange of an obligation when sufficient value is present, and also, that the method claims fail to satisfy the machine-or-transformation test.

Decision

The District Court held Alice's patents invalid, granting summary judgment in full to CLS Bank. In its decision, the Court applied the machine-or-transformation test and rejected the argument that the electronic transformation of data caused by the method is a "transformation". The method was also found to lack a tie to a particular machine. The Court reiterated that a nominal recitation of a general-purpose computer in a method claim does not tie the claim to a particular machine or apparatus.

Similarly, the Court also found that the system claims of the '720 patent are not patentable because they are merely the "incarnation of [the] abstract idea on a computer, without further exposition or meaningful limitation". An exemplary system claim from the patent is reproduced below:

1. A data processing system to enable the exchange of an obligation between parties, the system comprising:

(a) data storage unit having stored therein information about a shadow credit record and shadow debit record for a party, independent from a credit record and debit record maintained by an exchange institution; and

(a) [sic] computer, coupled to said data storage unit, that is configured to (a) receive a transaction; (b) electronically adjust said shadow credit record and/or said shadow debit record in order to effect an exchange obligation arising from said transaction, allowing only those transactions that do not result in a value of said shadow debit record being less than a value of said shadow credit record; and (c) generate an instruction to said exchange institution at the end of a period of time to adjust said credit record and/or said debit record in accordance with the adjustment of said shadow credit record and/or said shadow debit record, wherein said instruction being an irrevocable, time invariant obligation placed on said exchange institution.

Research Corporation Technologies v. Microsoft Corporation, 627 F.3d 859 (2010), No. 2010-1037 (Fed. Cir. December 8, 2010)

Significance: This case sets a higher threshold for challengers who seek to invalidate process patents under 35 U.S.C. § 101 as non-statutory subject matter on the basis that the claimed subject matter is an abstract idea.

Scope of Patent

Research Corp. initiated this action against Microsoft Corp. alleging infringement of six related patents which are directed to digital image halftoning.

Below are claims 1 and 2 from U.S. Patent No. 5,111,310 (the '310 patent):

1. A **method for the halftoning** of gray scale images by utilizing a pixel-by-pixel comparison of the image against a blue noise mask in which the blue noise mask is comprised of a random non-deterministic, non-white noise single valued function which is designed to produce visually pleasing dot profiles when thresholded at any level of said gray scale images.
2. The method of claim 1, wherein said blue noise mask is used to halftone a color image. [Emphasis added]

Provided below is claim 11 from U.S. Patent No. 5,341,228 (the '228 patent):

11. A **method for the halftoning** of color images, comprising the steps of utilizing, in turn, a pixel-by-pixel comparison of each of a plurality of color planes of said color image against a blue noise mask in which the blue noise mask is comprised of a random non-deterministic, non-white noise single valued function which is designed to provide visually pleasing dot profiles when thresholded at any level

of said color images, wherein a plurality of blue noise masks are separately utilized to perform said pixel-by-pixel comparison and in which at least one of said blue noise masks is independent and uncorrelated with the other blue noise masks. [Emphasis added]

Judicial History

In 2008, the CAFC reversed a determination by the District Court that the patents were invalid, not infringed and unenforceable due to inequitable conduct. On remand, the District Court held on summary judgment that the asserted claims of the '310 and '228 patents were invalid under 35 U.S.C. § 101. Among other things, Research Corp. appealed the District Court's ruling of invalidity.

Decision

In its decision, the CAFC emphasized the broad statutory categories under 35 U.S.C. § 101 as well as the only three articulated exceptions to subject matter eligibility; namely, laws of nature, physical phenomena and abstract ideas. Also, the CAFC noted that "process" has been further statutorily defined under 35 U.S.C. § 100(b) to mean "process, art, or method, and includes a new use of a known process, machine, manufacture, composition of matter, or material".

In this case, the CAFC noted that the subject matter at issue was a "process" for rendering a halftone image and thus, qualifies under both the categorical language of 35 U.S.C. § 101 and the definition of "process" in § 100. The focus, then, was on whether the claimed process is excluded as an abstract idea.

In *Bilski*, the Supreme Court cautioned against providing a rigid formula or definition for abstractness. On this basis, the CAFC perceived nothing abstract in the subject matter of the claimed processes.

Specifically, the CAFC considered whether the invention presented "functional and palpable applications" in the field of computer technology. The CAFC noted that inventions with specific applications or improvements to technologies in the marketplace are not likely to be so abstract that they override the statutory language and framework of the *Patent Act*. Furthermore, although the claimed methods incorporated algorithms and formulas, the CAFC noted that the claims were for a process of halftoning in computer applications, not merely the mathematical formula. Borrowing from the reasoning of the Supreme Court in *Diehr*, the Federal Circuit noted that "a new combination of steps may be patentable even though all the constituents of the combination were well known and in common use before the combination was made".

CyberSource Corp. v. Retail Decisions, Inc., No. 2009-1358 (Fed. Cir. August 16, 2011)

Significance: The holding from this case was that an unpatentable mental process remains unpatentable even when restricted to use on a computer.

Current Status: A petition for rehearing the case *en banc* has not been filed to date.

Scope of Patent

CyberSource owns U.S. Patent No. 6,029,154 (the '154 patent), which is directed to a method and system for detecting fraud in a credit card transaction between a consumer and a merchant over the Internet. CyberSource sued Retail Decisions alleging infringement of the '154 patent. Retail Decisions moved for summary judgment of invalidity under 35 U.S.C. § 101.

Claim 3, provided below, is directed to a method for verifying the validity of a credit card transaction over the Internet:

3. A method for verifying the validity of a credit card transaction over the Internet comprising the steps of:
 - obtaining** information about other transactions that have utilized an Internet address that is identified with the credit card transaction;
 - constructing** a map of credit card numbers based upon the other transactions and;
 - utilizing** the map of credit card numbers to determine if the credit card transaction is valid. [Emphasis added]

Claim 2 is written in the form of a “Beauregard claim”, that is, it is a claim to a computer readable medium containing program instructions for a computer to perform a particular process.

Decision

The CAFC affirmed the District Court’s holding that claims 2 and 3 of the '154 patent are invalid under 35 U.S.C. § 101 for failure to recite patent-eligible subject matter. Specifically, claims 2 and 3 are invalid under 35 U.S.C. §101 because both attempt to capture unpatentable mental processes (i.e. abstract ideas).

Use of the Beauregard claim form was insufficient to impart patent eligibility to claim 2.

With respect to claim 3, the CAFC agreed with the District Court that the method claim recites patent-ineligible subject matter. Specifically, the CAFC held that the method claim failed to meet either prong of the machine-or-transformation test.

Further, the CAFC held that claim 2 “recites nothing more than a computer readable medium containing program instructions for executing the method of claim 3” and thus, neither prongs of the machine-or-transformation test can be met.

Despite the use of the *Beauregard* language, claim 2 was held only to recite an incidental use of a computer to perform the mental process of claim 3. Accordingly, the machine prong of the test was not met because the use of a machine “must impose meaningful limits on the claim’s scope”.

This may come as a surprise to many patent practitioners, who might have previously believed that a computer readable medium, being an article of manufacture, would easily satisfy the subject matter requirements of 35 U.S.C. § 101.

JOINT INFRINGEMENT

***Akamai Technologies Inc. v. Limelight Networks Inc.*, 629 F.3d 1311 (2010), No. 2009-1372 (Fed. Cir. December 20, 2010); *McKesson Technologies Inc. v. Epic Systems Corp.*, No. 2010-1291 (Fed. Cir. April 12, 2011)**

Significance: Under the category of cases to watch, both *Akamai* and *McKesson* will be heard *en banc* in order for the CAFC to better address when actions by different parties in a multi-step process may lead to a finding of patent infringement.

Current Status: A combined petition for rehearing *en banc* was granted for both cases and thus, these opinions have been vacated. Oral arguments for both appeals are presently scheduled for November 18, 2011, subject to extensions.

The parties in *Akamai* have been requested to file new briefs addressing the following issue: If separate entities each perform separate steps of a method claim, under what circumstances would that claim be directly infringed and to what extent would each of the parties be liable?

The parties in *McKesson* have been requested to file new briefs addressing the following two issues:

1. If separate entities each perform separate steps of a method claim, under what circumstances, if any, would either entity or any third party be liable for inducing infringement or for contributory infringement?
2. Does the nature of the relationship between the relevant actors - e.g., service provider/user; doctor/patient - affect the question of direct or indirect infringement liability?

Summary of Cases

In *Akamai*, the method claim at issue was directed to delivery of web site contents from the content provider's computer by storing embedded objects at strategically placed servers. The accused network service provider argued it did not perform all the elements of the asserted claim since the "tagging" step was performed by the content providers.

In *McKesson*, the method at issue was directed to electronic communication between healthcare providers and patients involving personalized web pages for doctors and their patient. It was agreed between McKesson and Epic that no single party performed each and every step of the claimed method. However, one party (the health care provider) completed a portion and had allegedly induced separate parties (i.e. the users) to complete the remaining steps.

PREAMBLES AS LIMITATIONS

***American Medical Systems Inc. v. Biolitec Inc.*, 618 F.3d 1354 (2010), No. 2009-1323 (Fed. Cir. September 13, 2010)**

Significance: In a 4-3 decision, a majority of the CAFC held that a preamble generally does not limit the claims *unless* the preamble, at least, "recites essential structure or steps, or if it is 'necessary to give life, meaning, and vitality' to the claim". Given the strong dissent which argued that preambles should always limit claims in order to avoid confusion, this case serves as a caution that the law on whether the preamble limits a claim continues to be uncertain.

Scope of Patent

The patent at issue was Medical Systems' U.S. Patent No. 6,986,764 (the '764 patent). The claims are directed to methods and devices for vaporizing tissue by using laser radiation. Claim 31 is representative of the method claims and is provided below:

31. A method for **photoselective vaporization of tissue**, comprising:

delivering laser radiation to a treatment area on the tissue, the laser radiation having a wavelength and having irradiance in the treatment area sufficient to cause vaporization of a substantially greater volume of tissue than a volume of residual coagulated tissue caused by the laser radiation, wherein the delivered laser radiation has an average irradiance in the treatment area greater than 10 kiloWatts/cm² in a spot size at least 0.05 mm². [Emphasis added]

The apparatus claims are generally similar, except they also recite a laser and an endoscope having an optical fiber for delivering the laser radiation.

Judicial History

The District Court concluded that Biolitec's device does not infringe on the '764 patent because it does not perform "photosensitive vaporization of tissue", a term found in the preambles of the asserted claims and repeatedly used in the specification.

Decision

A majority of the CAFC held that the disputed preamble term, "photosensitive vaporization of tissue", and particularly, the descriptor "photosensitive" do not limit the asserted claims.

In its decision, the CAFC revisited its earlier decisions and noted that the preamble *generally* does not limit the claims but whether a preamble term is a claim limitation is "determined on the facts of each case in light of the claim as a whole and the invention described in the patent". For example, the preamble may be construed as limiting "if it recites essential structure or steps, or if it is 'necessary to give life, meaning, and vitality' to the claim". However, a preamble is not limiting "when the claim body describes a structurally complete invention such that deletion of the preamble phrase does not affect the structure or steps of the claimed invention". Specifically, the preamble is not construed as a separate limitation if it, for example, "is reasonably susceptible to being construed to be merely duplicative of the limitations in the body of the claim (and was not clearly added to overcome a [prior art] rejection)", and "merely gives a descriptive name to the set of limitations in the body of the claim that completely sets forth the invention".

NONOBVIOUSNESS - ANALOGOUS ART TEST AND TEACHING AWAY

In re Klein, No. 2010-1411 (Fed. Cir. June 6, 2011)

Significance: This decision implies that unless a prior art reference from a separate field of endeavour is pertinent to the entire problem being solved by the patent application at issue, the prior art will not be "analogous art" that can be cited against a claim in the patent application.

Background

The patent application at issue was directed towards a device for measuring and mixing sugar and water for bird feeders. The Board of Patent Appeals and Interferences (BPAI) affirmed each of the Examiner's five obviousness rejections, describing each of the five cited prior art references to be directed to "a device with a container having a movable divider held in place by a 'receiving means,' such as slots, grooves, or threads, which could be used to divide ingredients in specific ratios". In response to the Applicant's argument that the cited references are non-analogous art, the BPAI held that the prior art was reasonably pertinent to the problem the Applicant addressed and thus, properly

relied upon by the Examiner. The BPAI characterized the problem as “making a nectar feeder with a movable divider to prepare different ratios of sugar and water for different animals”.

Analogous art is a reference that is either (i) from the same field of endeavour as the invention or (ii) “reasonably pertinent” to the problem with which the inventor is involved if not in the same field of endeavour (i.e. if the reference would logically have commended itself to an inventor’s attention in considering his problem). The doctrine of analogous art limits the types of references that can be used to assess whether a claim is obvious.

Decision

The CAFC rejected the USPTO’s obviousness conclusions and held that none of the five cited prior art references are “analogous art”.

With respect to the first three cited prior art references, the CAFC accepted the Applicant’s argument that they are instead directed to a container designed to *separate* its contents, rather than to *mix* its contents. Regarding the other two cited prior art references, the CAFC accepted the Applicant’s argument that neither are directed to addressing multiple ratios or have a “movable divider”.

The CAFC concluded that an inventor addressing the problem, as the BPAI had characterized it, would not be motivated to consider any of the references.

Spectralytics Inc. v. Cordis Corporation, No. 2009-1564 (Fed. Cir. June 13, 2011)

Significance: This case illustrates that an argument for non-obviousness based on “teaching away” can be demonstrated even if there is no specific prior art reference that explicitly discourages an inventive solution.

Background

Spectralytics sued Cordis for infringement of U.S. Patent No. 5,852,277 (the ‘277 patent). The ‘277 patent is directed to a laser metal-cutting device which significantly increased the precision of the laser cut by ensuring that the laser tool and a workpiece fixture moved in unison (i.e., with the vibration of the machine). Prior machines, however, focused on suppressing the vibration of the machine. The patentee argued that the prior machines “taught away” from the design claimed in the ‘277 patent because the prior machines dealt with the problem of vibration by suppressing or deadening vibration by fastening the entire apparatus to a cast iron support.

Decision

The CAFC noted that a finding for “teaching away” is a question of fact and that there is no requirement for the prior art to foresee the specific invention that was later made and to have warned against taking that path. In this case, the CAFC was satisfied that there was sufficient evidence (i.e., claimed invention designed contrary to how all prior machines were designed) so that a reasonable jury could have found that the prior art taught away from the design in the ‘277 patent. In other words, an implicit finding of teaching away can be made if there is substantial evidence to support such a finding.

U.S. PATENT REFORM LEGISLATION – The *America Invents Act*

The *America Invents Act* (*AIA*) is the largest reform of U.S. patent law in over half a century. It was signed into law by President Obama on September 16, 2011. The main provisions of the *AIA* will take effect one year after enactment. Some other provisions have already come into effect and others will take effect eighteen months after enactment. In anticipation of these new changes in the law, the USPTO has established a microsite (http://www.uspto.gov/aia_implementation/index.jsp) to handle the transition. Generally, the reforms can be characterized into five major groupings which are summarized below.

I. “FIRST-INVENTOR-TO-FILE”

Section 3 of the new law transitions U.S. law from a “first-to-invent” to a “first-inventor-to-file” system. The term, “effective filing date”, is now statutorily defined as the date on which the inventor first filed an application for the invention ***in the U.S. or elsewhere***. This and other related changes will take effect on March 16, 2013 and will apply to any application and patent with a claim having an effective filing date on or after March 16, 2013.

The new law maintains a one-year grace period for a disclosure by the inventor or by a person who obtained the subject matter disclosed directly or indirectly from the inventor. In other words, if such a disclosure occurs up to one year before the filing date, such disclosure cannot be cited as prior art against the inventor’s patent application. For applicants of all nationalities, the grace period under the *AIA* and the one-year Paris Convention priority period previously recognized under U.S. law or treaty, are ***additive***.

The on-sale bar and prior art rules have been modified to treat public disclosures equally, regardless of where in the world they take place. As such, any sale, public use, or “otherwise [making] available to the public” before the effective filing date will constitute a bar to patentability unless the grace period exception applies.

The new law also provides for “Derivation Proceedings” which replace the previous “Interference Proceedings”. In contrast to Interference Proceedings, which were intended to determine which party had actually invented first (relevant in the first-to-invent regime), Derivation Proceedings are intended to determine whether an earlier applicant in fact misappropriated the invention from the real inventor.

II. IMPROVING PATENT QUALITY

The *AIA* includes many changes whose stated purpose is to improve the quality of patents and to permit third parties to challenge the validity of patent claims more quickly and efficiently. These provisions are intended to leverage the technical expertise of the USPTO (as opposed to non-specialist courts) at considerably less expense than through litigation.

A. Prioritized, Priority and Supplemental Examinations

The *AIA* implements a previously announced prioritized examination procedure. The stated goal of this procedure is to get a disposition from the USPTO (allowance, abandonment, etc.) within one year from the date the application is accepted into prioritized examination. The fee to enter the prioritized examination track is \$4,800 for large entities, with a 50% reduction for small entities. This prioritized examination is limited to 10,000 applications per year, although the Commissioner has the discretion to increase this number in the event the demand exists and the USPTO has sufficient examination staff to handle the additional workload.

Also, priority examination is available beginning September 2012 for products, processes, or technologies that are important to the national economy or national competitiveness. This category will be available without the above additional fee.

Also beginning in September 2012, patent owners may request supplemental examination of a patent to “consider, reconsider, or correct information believed to be relevant to the patent”. The USPTO will review requests for supplemental examination within three months and, in the event that a “substantial new question of patentability” is raised, will order an *ex parte* re-examination. This provision is retroactive so that it applies to any patent application filed before, on or after September 16, 2012. The purpose of this provision is to provide patent owners with a way to correct oversights or other missteps during prosecution (such as failing to disclose relevant prior art) that may render the patent invalid or unenforceable.

The *AIA* does not replace the existing reissue proceedings which continue to be available.

B. Third Party Right to Submit and Explain Relevant Prior Art

The *AIA* includes improved means for third parties to submit relevant information to the USPTO during the prosecution of a competitor’s applications, or to submit that information after the competitor’s patent has issued. In either case, the third party may explain how the additional information pertains to the claims. The USPTO may institute re-examination of any patent if it considers that there is a “substantial new question of patentability” raised. This provision is effective on September 16, 2012 and applies to any patent application filed before, on or after that date.

C. Post Grant Review and Inter Partes Review

The former Inter Partes Re-examination (i.e. re-examination where both the patent owner and a third party challenger had opportunities to make written submissions, and even then only on the basis of prior art patents and other printed publications) is replaced by two new procedures effective September 16, 2012.

1. Post Grant Review (PGR) may be initiated by any third party and is available within nine months of patent issue date. Any patentability ground (except best mode) can be raised to attack a patent under the PGR procedure. The threshold for allowing a Post Grant Review requires the petitioner to initially show that it is “more likely than not” that at least one of the claims is unpatentable.
2. Inter Partes Review may be initiated by any third party after the expiry of the period for Post Grant Review. Inter Partes Review may only be requested on the basis of patents, printed publications, and submissions of the patent owner before the USPTO or Federal Court. The threshold for allowing an Inter Partes Review requires a “reasonable likelihood” that the petitioner will prevail.

Both types of review will be conducted by the Patent Trial and Appeal Board (formerly the Board of Patent Appeals and Interferences) within one year. Both procedures will be terminated by the USPTO if the petitioner has filed a related civil action before filing the petition.

There is no presumption of validity under either proceeding. The standard of proof in both proceedings is simply the preponderance of evidence. There are to be rights of reply, right to an oral hearing, rights to stays of co-pending civil litigation, and rights of appeal to all parties. Both procedures are subject to explicit, short, time limitations with the goal to yield an outcome within eighteen months.

During the intervening period between the enactment of the *AIA* and the effective date of the above two types of review, the threshold for Inter Partes Re-examination has been amended to require a “reasonable likelihood” that the requester would prevail with respect to at least one of the claims challenged in the request.

Both types of review give rise to estoppel in any further civil litigation for issues that were raised, or could reasonably have been raised in the review. The impact of the estoppel on the petitioner is more significant in a PGR, as it permits almost any ground to be raised. However, this estoppel runs only one way. Parties are not estopped from raising issues in these proceedings that were previously considered in civil litigation.

Many of these changes greatly improve a third party’s ability to participate in the patent process and afford a third party an opportunity to have the USPTO consider its objections. The legislation also permits a third party to obtain a stay of civil proceedings by a non-specialist court while the issues are being considered by a body of specialists with technical expertise (i.e. the USPTO). The legislation also provides a right to appeal

the decision in the above proceedings. This addresses one of the major disincentives of the previous Inter Parties Re-examination procedure.

D. Tax Strategies Deemed within the Prior Art

The *AIA* includes a controversial provision that deems any strategy for reducing, avoiding, or deferring tax liability insufficient to differentiate an invention from the prior art when evaluating specified conditions of patentability. This provision is effective immediately upon enactment of the *AIA* and applies to any application that is pending on, or filed on or after the enactment date and also to any patent that is issued on or after the enactment date. However, this provision does not apply to a method, apparatus, technology, computer program product, or system that is used solely for preparing a tax or information return or other tax filing, and also does not apply to a product “used solely for financial management, to the extent that it is severable from any tax strategy”.

III. IMPROVING FAIRNESS – DURING PROSECUTION AND POST-GRANT

A. During Prosecution

(i) Filing by Non-inventors Facilitated

The *AIA* simplifies the oath or declaration requirements when filing a patent application and assists patent owners (i.e. those who show sufficient proprietary interests in the matter and where it is appropriate to preserve the rights of the parties) to more easily file an application when the inventor is unable or unwilling to do so.

(ii) “Micro Entity” Filings

The *AIA* introduces a new class of small entity, called “micro entity”, which is eligible for significant fee reductions. This new class generally encompasses applicants that would otherwise qualify as “small entities”, and who:

- (i) have not been named on more than four previously filed patent applications,
- (ii) have a gross income below a designated level, and
- (iii) have not transferred an ownership interest in the application to an entity with a gross income exceeding such designated level.

Applicants that qualify for this class will receive a 75% fee reduction as compared to a large entity. The gross income threshold is based on definitions of income under US tax law. It is not clear how entities that earn income outside the US (i.e. foreign applicants) will qualify for this new micro entity status.

B. Post-Grant

(i) Elimination of Abused Technical Grounds for Unenforceability

Many much-abused provisions for attacking patents have been repealed, effective upon the date of enactment of the *AIA*. These include:

- (a) the requirement for a description of the best mode of practicing the invention (oddly, the *AIA* did not actually repeal the best mode requirement, but instead rendered it toothless as a ground for invalidating a patent); and
- (b) the requirement for an independent opinion from counsel to avoid claims for punitive damages; and
- (c) several references to intent that were often used for dubious, vexatious, and frequently meritless allegations of inequitable conduct.

(ii) Patent Marking Made Easier and Safer

The recent wave of false-marking lawsuits has been effectively killed with amendments to the patent marking provisions. Patentees may now comply with patent marking provisions by posting patent information on the Internet and directing the public to a free internet site that associates the patented article with the number of the patent. Marking products with expired patent numbers is no longer a violation of the patent marking statute.

Only the U.S. government may now sue to enforce civil penalties authorized by the false marking provisions. A civil action for damages for false marking is now available only to persons who suffer a competitive injury and only to the extent adequate to compensate for that injury. The *AIA* should end the opportunistic and sometimes abusive lawsuits relating to third party enforcement of the false marking provisions.

These amendments go into effect immediately and apply retroactively to all patents and applications.

(iii) New Prior User Defence

Effective immediately, the *AIA* provides a “first inventor and prior commercial user” defence against an action for infringement. The defence is also available to affiliates of the user. The defence applies to all areas of technology (expanding from the existing defence which was restricted to business methods). For the defence to be available, the prior user must have, in good faith, commercially used the invention in the U.S. one year before the effective filing date of the patent or one year before publication by the inventor. The prior use may be public or secret. There are several exceptions for prior users involved with federally-funded research and programs (i.e. universities or their technology transfer organizations). This defence applies to any patent issued on or after the date of enactment of the *AIA*.

(iv) Transitional Program for Business-Method Patents

The *AIA* sets up a transitional program that implements a provisional post-grant proceeding (similar to the Post-Grant Review) for review of the validity of a “covered business method patent” (statutorily defined to include “a patent that claims a method or corresponding apparatus for performing data processing or other operations used in the practice, administration, or management of a financial product or service, except that the term does not include patents for technological inventions”). A petitioner for review must have been sued for, or charged with, infringement of the subject patent. The program will, at a minimum, allow a party to request a Post-Grant Review specific to business method patents, and there will also be a separate entity within the USPTO that focuses specifically on that review.

There is a sunset provision for this program, which is set to expire in eight years.

IV. NEW FEES

The USPTO has gained the right to set or adjust fees without Congressional approval to recover estimated operating and administrative costs. The USPTO has already used these newfound fee-setting powers to enact a “temporary” 15% surcharge on most fees effective September 26, 2011.

Beginning November 15, 2011, the USPTO will charge large entities a penalty of \$400 for applications that are not filed electronically.

U.S. EXPANDED PATENT PROSECUTION HIGHWAY PILOT

On July 15, 2011, the USPTO commenced a one-year Expanded Patent Prosecution Highway (PPH) pilot program (also known as the “PPH Mottainai Pilot”). The revised PPH is being offered in co-operation with patent offices from eight countries (i.e., Australia, Canada, Finland, Japan, Russia, Spain, the U.K. and the U.S.). Two significant changes in the revised program are:

1. Elimination of the OFF (“Office of First Filing”) to OSF (“Office of Second Filing”) relationship

Applicants may now request participation in the expanded PPH at an “office of later examination” (OLE) by using the examination results of an “office of earlier examination” (OEE), provided that: (i) the OEE and the OLE have an agreement on the revised PPH requirements and (ii) the OEE application and the OLE application have the same priority or filing date. In other words, participation in the expanded PPH may be requested on the basis of results available on *any patent family member from any office participating in this expanded pilot program*.

2. Broadened definition of “sufficient correspondence”

The claims presented to the OLE must either be of the *same or similar scope* as the allowable claims in the OEE. However, claims that are *narrower in scope* may also be presented in the form of dependent claims, so long as there is corresponding support in the U.S. application.

SIGNIFICANT CANADIAN COURT DECISIONS

PATENTABLE SUBJECT MATTER

Amazon.com v. Commissioner of Patents (“1-Click”), 2010 FC 1011 (October 14, 2010)

Significance: The case is being widely watched as a test case on business method patents.

Current Status: This case was an appeal by Amazon from the Commissioner’s refusal of its patent application. The Federal Court (FC) allowed the appeal on October 14, 2010. The Commissioner has appealed the Federal Court decision. A ruling from the Federal Court of Appeal is expected sometime later this fall.

Scope of Patent

Amazon.com applied for a patent application for a “one-click” on-line ordering system, which enables a customer to purchase an item with a “single click” so that the order is completed without the need to “check out” or enter any additional information.

Claim 1 of the patent application is as follows:

1. A method in a client system for ordering an item, the method comprising: receiving from a server system a client identifier of the client system; persistently storing the client identifier at the client system; where an item is to be ordered, displaying information identifying the item and displaying an indication of a single action that is to be performed to order the identified item; and in response to the single action being performed, sending to the server system a request to order the identified item along with the client identifier, the client identifier identifying account information previously supplied by a user of the client system wherein the user does not need to log in to the server system when ordering the item and when account information is to be changed, coordinating the log in of the user to the server system; receiving updated account information; and sending the updated account information to the server system whereby the user does not need to log in to the server system when ordering the item, but needs to log in to the server system when changing previously supplied account information.

Judicial History

The application was finally rejected by the Examiner and, following a lengthy appeal process before the Patent Appeal Board, was refused by the Commissioner of Patents.

The Commissioner rejected both the method and system claims as being directed to non-statutory subject matter under s. 2 of the *Patent Act*. In doing so, the Commissioner: (i) formulated a “form and substance” approach to assessing subject matter which requires assessing “what has been discovered” apart from the claims as a whole; (ii) held that business methods are not patentable subject-matter *per se*; (iii) identified a “technological” requirement for patentable subject matter; and (iv) defined “art” to require an act performed by some physical agent upon some physical object and produce in such object some change either of character or condition.

Decision

The Federal Court sided with Amazon.com and issued a stern rebuke to the Commissioner.

Regarding the Commissioner’s reliance upon, and adoption of, foreign legal principles, the Court noted that the Commissioner is bound by the Canadian patent regime and its interpretation by the Courts. The Commissioner has no discretion on this point. As well, international jurisprudence is not determinative but, at most, a potential guide.

The use of a “form and substance” approach when considering patentability is confusing and contrary to the clear direction of the Supreme Court jurisprudence, which instructs purposive construction universally.

The Commissioner’s assumption that there is a “tradition” of excluding business methods from patentability in Canada is unfounded. A business method exception would be a “radical departure” from the current regime requiring parliamentary intervention.

In addition, there is no support for a “technological” requirement in Canadian jurisprudence and it is not within the Commissioner’s jurisdiction to introduce one. Such a test would be highly subjective and provide little predictability.

Finally, with regard to the Commissioner’s definition of art, the Court stated that it is not necessary for the material objects in question to physically change into another state or thing. The Commissioner’s articulation of the test for art was too restrictive. The correct test includes three elements: 1) it must not be a disembodied idea but have a method of practical application; 2) it must be a new and inventive method of applying skill and knowledge; and 3) it must have a commercially useful result.

Subsequent CIPO Guidelines

On August 1, 2011, the Canadian Intellectual Property Office issued new practice guidelines subsequent to the Federal Court’s decision of *Amazon.com*.

On the surface, the guidelines appear to acknowledge at least some of the Federal Court’s direction regarding claim interpretation, making several references to the use of “purposive construction” when construing a claim.

However, several seemingly new terms and approaches were introduced. In particular, heavy emphasis is placed on identifying the “inventive concept” of a claim. According to the guidelines, “the inventive concept can be defined in terms of some or all of the elements of the claim as construed, while in others it must be defined in different terms.” According to the guidelines, it is this “inventive concept” that is to be assessed when determining whether the claims are directed to patentable subject matter.

In addition, under the guidelines, the “inventive concept” must provide a solution to a technical problem for the claimed invention to qualify as statutory subject matter.

Thus, it appears that the new practice guidelines are attempting to maintain both a “technological” test and a two-pronged analysis (now rephrased as the “claimed monopoly” and “actual invention”). It is not clear how these directives accord with the Federal Court’s decision.

INVALIDITY – INEQUITABLE CONDUCT

Corlac Inc. v. Weatherford Canada Ltd., 2011 FCA 228 (July 18, 2011)

Significance: This case substantially raises the bar for invalidating a patent for failure to communicate in good faith with CIPO during prosecution.

Specifically, the Federal Court of Appeal (FCA) held that s. 73 of the *Patent Act* can only lead to abandonment of a patent application during prosecution. Its effect is extinguished after the patent issues.

Several earlier decisions suggested that the s.73 duty to communicate in good faith could be relied on as a ground to attack an issued patent. This led to frequent assertions of this section in patent litigation. The FCA clarified that those earlier decisions should not be relied on.

The Court clarified that s. 53(1), which contains a stricter intent requirement and has a narrower scope, remains available as a ground for attacking the validity of an issued patent.

Background

This was an infringement action in which the Respondent (Weatherford) alleged infringement of its Canadian Patent No. 2,095,937 (the ‘937 patent) by the Appellant (Corlac). The factual background of this case is complex. Consequently, only the facts essential to the good faith requirement issue are outlined below.

The initial petition for the ‘937 patent named Grenke and Torfs as co-inventors. During prosecution of the patent application, Grenke asked that Torfs be removed as a co-

inventor after Torfs passed away. Grenke obtained formal assignments from both Torfs' employer (A. Friedr. Flender AG) and widow. Grenke's request to remove Torfs resulted in a request from the Patent Office for an affidavit. In response, Grenke swore and filed an affidavit stating that he was the true sole inventor of the patent and that Torfs should not have been named in the initial petition.

One of the issues on appeal to the FCA was whether the patent in suit was invalid due to misrepresentations in Grenke's affidavit filed during prosecution. Of particular interest are ss. 53(1) and 73(1)(a), excerpts of which are provided below:

53.(1) A patent is void if any material allegation in the petition of the applicant in respect of the patent is untrue, or if the specification and drawings contain more or less than is necessary for obtaining the end for which they purport to be made, and the omission or addition is wilfully made for the purpose of misleading. [Emphasis added]

73.(1) An application for a patent in Canada shall be deemed to be abandoned if the applicant does not
(a) **reply in good faith** to any requisition made by an examiner in connection with an examination...[Emphasis added].

Arguments

With regards to subsection 53(1), the Appellant asserted that an intentional misstatement as to inventorship will always be material at least because the public loses the benefit of knowing that Torfs was an inventor.

In respect of section 73, the Appellant argued that if it is established at any time (either during prosecution or post-issuance) that an applicant did not respond in good faith to a requisition during the prosecution of the application, then by operation of law, the application is deemed to have been abandoned.

Decision

The FCA noted that s. 53(1) applies after issuance of a patent but is notably narrower in scope than s. 73.

The FCA, however, did not find any violation of s. 53(1), as the lower court did not find that Grenke had made a wilfully misleading statement. Therefore, the FCA was not prepared to impose the "draconian remedy" provided for in s. 53(1) in the absence of an analysis regarding Grenke's beliefs about inventorship.

Further, Grenke's misstatement was not found to be material for purposes of subsection 53(1), at least in part because Grenke had acquired whatever interest Torfs or his employer had in the patent at the time it was issued.

The Federal Court of Appeal rejected the argument that an intentional misstatement as to inventorship will always be material for the purposes of s. 53(1). The Court implied (from the trial judge's conclusions) that naming Torfs as a co-inventor would have no impact on how the public makes use of the art taught by the patent.

Regarding s. 73, the Federal Court of Appeal found that it is up to the Patent Office to determine whether an applicant's response to a requisition is made in good faith. The operation of section 73 is "extinguished once the patent issues".

Two earlier Federal Court decisions concerning the operation of section 73 (*G.D. Searle & Co. v. Novopharm Ltd.*, 2007 FC 81 and *Lundbeck Canada Inc. v. Ratiopharm Inc.*, 2009 FC 1102) were expressly addressed. The Court clarified that to the extent that those two cases "can be interpreted as standing for the proposition that s. 73(1)(a) can be relied upon for the purpose of attacking the validity of an issued patent, they should not be followed."

PAYMENT OF MAINTENANCE FEES

***Unicrop Ltd. v. AG of Canada*, 2011 FCA 55 (February 11, 2011)**

Significance: Affirms that maintenance fees for a patent application must be paid by the authorized correspondent, and that the Commissioner is entitled (and in fact required by the *Patent Rules*) to refuse payment from anyone else.

Background

The Appellant (Unicrop) filed a patent application and appointed a Canadian agent. Unicrop later retained a different agent to take over prosecution of the case, by which time the third maintenance fee payment had become overdue, resulting in abandonment of the application. The new agent duly requested re-instatement and submitted the third maintenance fee. However, a revocation and appointment of the new agent was not submitted. Later, the new agent also attempted to pay the fourth maintenance fee. After the fourth anniversary had passed, the Commissioner sent a letter acknowledging receipt of the fourth maintenance fee payment, but advising that the payment could not be accepted because payments may only be made by the authorized correspondent. By this time, more than one year had passed since the application had become abandoned for failure to pay the third maintenance fee.

Accordingly, the re-instatement fee and the third and fourth maintenance fees were not accepted by CIPO, and the application was deemed to be irrevocably abandoned.

The Federal Court of Appeal considered two questions:

- (i) whether the Federal Court correctly applied the proper standard of review in refusing to intervene in the Commissioner's decision; and

- (ii) whether equitable relief is excluded by reason of a clear statutory rule.

Decision

Unicrop's appeal was refused.

Subsection 6(1) of the *Patent Rules* does not merely authorize the Commissioner to deal with those who have filed appropriate notice, it effectively prohibits the Commissioner from dealing with anyone else.

The provisions of the *Rules* could not be clearer. Only an appointment or a revocation filed with the Commissioner pursuant to the *Patent Rules* can change an authorized correspondent, and neither can take effect before being filed with the office of the Commissioner. The intention to keep a patent application alive cannot counter the effect of the statutory and regulatory requirements.

Further, the law is clear that equitable relief cannot be invoked in order to counter the application of a clear statutory rule.

Repligen v. AG Canada, 2010 FC 1288 (December 15, 2010)

Significance: When deciding how to exercise discretion, the Commissioner must consider multiple factors, including the effect of the decision on the applicant.

Background

Repligen retained a maintenance fee payment service provider (CPA) to attend to the maintenance fees for its Canadian Patent No.1,341,486 (the '486 patent). In its payment instructions to CIPO, CPA incorrectly identified the number of the issued patent, but did correctly identify Repligen as the patentee. When CPA transmitted the second and third anniversary maintenance fees, the fee payments were directed to Canadian Patent No.1,314,486, instead of the '486 patent. CIPO sent a Maintenance Fee Notice to Repligen's former Canadian patent agent advising that a maintenance fee was overdue but did not receive a further response. The '486 patent subsequently lapsed in 2008 for failure to pay the maintenance fee.

In 2009, Repligen's newly appointed Canadian patent agents were alerted to the lapsed status of the '486 patent, and attempted to reinstate the '486 patent by arguing that the maintenance fees were actually paid on time, but that an administrative error led to the payments being credited to the wrong patent. The agents argued that CIPO could remedy this error using its discretion under section 8 of Canada's *Patent Act*, and that the status of the '486 patent could be corrected. Section 8 provides "that clerical errors in any instrument of record in the Patent Office do not invalidate the instrument but **may be corrected under the authority of the Commissioner**" [Emphasis added].

The Commissioner agreed that the error was clerical in nature, but refused to correct the error based on Repligen's delay in seeking correction and the possible prejudice to third parties. Attempts to pay additional maintenance fees on the '486 patent were denied by CIPO on the basis that the '486 patent had lapsed.

Repligen appealed the Commissioner's refusal to correct the administrative error and to re-instate the '486 patent.

Decision

Judicial review was granted because the Commissioner was held to be unreasonable in failing to weigh and balance all relevant factors before exercising her discretion.

The Commissioner's discretion under section 8 of the *Patent Act* involves two determinations:

- (1) whether the error or mistake is a clerical error; and
- (2) if so, whether in the exercise of discretion, the error should be corrected.

In this case, the Commissioner failed to properly exercise her discretion. The Commissioner took into account only two factors: the delay and possible third party prejudice. Her refusal to correct the error had a catastrophic impact on Repligen. The Commissioner failed to take into account the following relevant factors before deciding whether to correct the clerical error:

- a) impact on Repligen,
- b) the fact that payments were accepted by CIPO and appropriated to another patent,
- c) the payments were made on time,
- d) the Commissioner's failure to appreciate that if she properly exercised her discretion the remedial scope of section 8 would have the effect that the '486 patent never lapsed,
- e) the Commissioner did not take into account the purpose and object of the maintenance fee provisions, and
- f) simply invoking *possible* third party rights, without more, would fundamentally impair the remedial powers provided in section 8.

The Court ordered CIPO to reconsider the Applicant's correction request while taking into account the other listed factors.

FINAL OFFICE ACTIONS AND APPEALS

Robert William Bartley et al. v. Commissioner of Patents et al., 2011 FC 873 (July 12, 2011)

Significance: This case reaffirms the holding in *Belzberg v. Canada (Commissioner of Patents)*, 2009 FC 657 ("*Belzberg*") that an appeal of a Final Action that is resolved in favour of the Applicant

cannot be returned for further prosecution and must result in allowance of the claims.

Background

After responding to six examiner requisitions during prosecution of the Applicants' patent application, a Final Action was requested. The Final Action was issued, and the Applicants' agent filed a corresponding response.

The Patent Appeal Board considered the application and reversed the examiner's rejections in the Final Action. However, the matter was nonetheless returned to the examiner "to address any outstanding defects which have been held in abeyance pending resolution of the new matter issue".

Notably, the Board dealt with the matter without holding a hearing, informing the Applicants' agent, or otherwise giving the Applicants or their agent an opportunity to be heard.

Following the Board's decision, the examiner raised previous prior art objections that had been subsumed by the Final Action and Commissioner's decision, as well as a new piece of prior art not previously raised. The Applicants petitioned the Commissioner for relief.

In their petition, the Applicants cited the Federal Court's decision in *Belzberg*, which held that a final action is meant to dispose of a patent application. That is, the Commissioner is to make one of two decisions: (i) refuse the patent application; or (ii) grant the patent application.

The Commissioner denied the petition for relief and the Applicants then appealed to the Federal Court.

Decision

The Board's inquiries and recommendations as to outstanding matters were "completely unsatisfactory and lacking in due process". More specifically, "a final action is meant to be just that, final."

The Court was critical of the Commissioner's handling of this case:

- (i) It was evident from the record that there were no outstanding matters.
- (ii) A belief gathered by one Board member in a private conversation with the examiner is a completely improper way to gather relevant evidence.
- (iii) It was contrary to section 30(6) of the *Patent Rules* to explicitly present the Applicants' patent agent with the Board's view that there were "outstanding matters" without clearly and expressly offering the Applicants an opportunity to be heard. Further, there was an obligation upon the examiner to put everything on the table that requires the applicants, and, if necessary, the Board and the Commissioner, to deal

with. There was no provision to reserve upon or keep certain matters “outstanding”.

In view of *Belzberg*, the reservation of matters from a Final Action is a questionable, if not improper procedure. Since the application was returned to the examiner, the only matter to be dealt with, clerical corrections aside, was any review of changes as may be submitted by the applicants. In absence of such changes, there cannot be grounds left for a further substantive requisition and allowance must follow as a consequence.

UPDATES TO CHAPTER 16 OF THE CANADIAN MANUAL OF PATENT OFFICE PRACTICE (MOPOP)

In October 2010, the Canadian Intellectual Property Office (CIPO) updated Chapter 16 of the Manual of Patent Office Practice (MOPOP). This update reflects changes in CIPO's approach to examination of patent applications for computer and software-based inventions. Specifically, the changes address CIPO's policy on the definition of patentable subject matter. These changes also bring Chapter 16 into accordance with the December 2009 revisions to Chapter 12 (Utility and Subject Matter) and Chapter 13 (Examination of Applications) with respect to computer-implemented inventions.

The updated Chapter 16 sets out a narrow definition of "computer-implemented invention", and makes it clear that a "technological solution to a technological problem" is required in order for a computerized invention to be considered patentable subject matter. Further, under the new approach, only those elements of a claim that are "new" and "inventive" would be considered for the purpose of determining if this "technological" requirement is met. The updated Chapter 16 permits patent examiners to ignore all other elements of a claim that are "known" (e.g., a processor, a memory, etc.) in the patentable subject matter analysis. This change from past practices will make it more difficult for applicants to obtain patent protection for computer and software-based inventions in Canada.

The timing of this update is puzzling, as it comes prior to a final resolution in the *Amazon.com* "1-Click" case. Because a final resolution of the *Amazon.com* case has not been reached, the Canadian jurisprudence relating to computer-based inventions remains unsettled. Much of the updated Chapter 16 now conflicts with the Federal Court's *Amazon.com* decision, which was very critical of the recent changes made by CIPO in its approach to patentable subject matter and strongly rejected *all* of the proposed revisions (including the "technological solution" approach). As such, the updated Chapter 16 appears to be largely inconsistent with current Canadian law. As noted elsewhere in this paper, the *Amazon.com* case is presently before the Federal Court of Appeal and we await further developments.