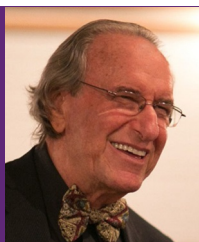


# A YEAR OF SIGNIFICANT PATENT LAW CHANGE



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A number of significant decisions were handed down in US patent-related lawsuits during 2008. Those responsible for developing and implementing intellectual property strategies would be wise to familiarise themselves with these decisions and their far-reaching implications. The following brief sampling of such decisions will inform those who wish to enhance and avoid jeopardising their IP rights and businesses.

## New patentability test

The US Court of Appeals for the Federal Circuit (CAFC), in a landmark *en banc* (by its own action) decision, has ruled that to be patentable, a process must either be tied to a particular machine, or transform a particular article. This 'machine or transformation' test will be the sole test of subject matter eligibility under 35 U.S.C. § 101 for a claimed process. Software and medical patents may be challenged (*In re Bilski* (Fed. Cir. 2008)(*en banc*)).

## Unenforceability more difficult to prove

In *Star Scientific*, the CAFC has set more difficult requirements for rendering a patent unenforceable based upon allegations of inequitable conduct. Until the unanimous *Star Scientific* decision, the often misused defence of inequitable conduct had added uncertainty to the already complex nature of patent litigation. *Star Scientific* had sued Reynolds, the maker of Camel and Salem cigarettes, in 2001, saying that the company infringed patents related to a curing process that reduces the level of cancer-causing nitrosamines in tobacco. This case establishes that intent to deceive will not be presumed based solely on evidence that the applicant was in possession of material prior art that was withheld from the Patent Office. Rather, the defence will be required to prove that the applicant made a deliberate decision to withhold a known reference.

District courts will now be constrained to apply the standard that, for an inference of deceptive intent to be drawn, it must be the single most reasonable inference able to be drawn from the evidence to meet the clear and convincing evidentiary standard. Furthermore, if a threshold level of intent to deceive is not established by clear and convincing evidence, or if materiality is not established by applying the same evidentiary standard, the CAFC has removed the right to render a patent unenforceable from the district court's discretion (*Star Scientific, Inc. v. R.J. Reynolds Tobacco Company et al* (Fed. Cir. 2008)).

## Doctrine of Equivalents

In a *David and Goliath*-type case where an individual inventor (Dr Voda) has been litigating against a major corporation, the CAFC has affirmed a jury's catheter patent claim construction under the doctrine of equivalents (DOE).

*Cordis* had redesigned some of its products to avoid literal infringement. However, on hearing expert testimony that "cardiologists would have difficulty distinguishing the two during use", and that the curved portion "performed the same function as a straight portion, in the same way, to achieve the same result...", the redesigned products were found to infringe under the DOE. On appeal, the CAFC, in looking at Voda's experts to find evidence of insubstantial difference, found that "the context in which a term is used in the asserted claim can be highly instructive". The patent specification, in stating that "the present invention [includes a] straight portion", supports the claim requirement that the catheter be engaged "along a line of the aorta". The district court, however, found that the claim is not limited to linear portions of the aorta. The CAFC refused to see that single statement as a "clear disavowal of claim scope", since the specification discusses other instances where the same portion could be curved. The CAFC confirmed the district court's construction, observing that when engaged, it is clear that the catheter may curve along the aorta. The CAFC affirmed the jury's finding of damages, but denied Voda's request for injunctive relief (*Dr Voda v. Cordis Corp.* (Fed. Cir. 2008)).

## Rare unanimous *en banc* decision

The CAFC appears to have given greater value to design patent protection, having made a unanimous *en banc* decision that lessens the burden of proving US design patent infringement. The CAFC applied an 'ordinary observer' test as the sole means for determining whether a design patent has been infringed. This test implements an 1871 *Gorham* case's reasoning whereby, from the perspective of an ordinary observer who is familiar with the art, one looks for substantial similarity between the patented design and the accused design. The burden will fall upon the accused infringer to produce prior art designs, which will be used for highlighting differences. It is expected that this decision will cause many design patent litigations to be decided on technical points of similarity, rather than a broader totality of similarity, and is a departure from the use of the "point of novelty" test. The CAFC indicated that a verbal description of the patent drawings is not required in construing claims (*Egyptian Goddess v. Swisa* (Fed. Cir. 2008) (*en banc*)).

## \$1.5 billion victory evaporates

In a case involving two Lucent patents covering a compression method for MP3 digital audio files, the CAFC has affirmed the district court's decision to set aside a \$1.5 billion jury award for Lucent. Lucent's problems originated from joint ownership of its '080 patent, coupled with a failure to provide evidence that Microsoft's encoder actually infringed its '457 patent. The court found that Lucent "failed to provide sufficient evidence to establish that the



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High Quality encoder actually runs on Windows Media Player and thus it would be too speculative to conclude that Windows Media Player necessarily infringes the '457 patent". Litigators will study this case so as to avoid the same pitfalls (*Lucent v. Gateway, Dell, & Microsoft* (Fed. Cir. 2008)).

## \$46 million default judgment affirmed

The CAFC weighed evidence including a 2005 *Forbes* article, which observed that, during 2005, entities of Costa Rica-based defendant Bodog handled more than \$7.0 billion in online wagers, with 95 percent of that figure coming from the US. This article also noted that Bodog's founder, Mr Ayre, pays no US income tax, and prides himself on the fact that he and the Bodog entities are able to routinely evade US law. Thus, when Bodog on appeal argued that it was not properly served notice of the litigation and that the Nevada court lacked personal jurisdiction over the company, the CAFC was influenced by plaintiff 1st Technology's argument that service upon Bodog's Costa Rica office was proper. Bodog failed to appear in court after being thus served, and 1st Technology argued that it thereby waived its personal jurisdiction argument. The Nevada district court awarded \$46 million in damages plus interest to 1st Technology, which had been enforcing the judgment by Bodog's US assets, such as its domain names and trademark registrations. The Federal Circuit affirmed the Nevada district court's judgment, without opinion (*1st Technology v. Rational Ent. and Bodog* (Fed.Cir. 2008)).

## Re-examination based on previously considered prior art

*In re Swanson* provides an unusual fact pattern. After a patent examiner rejected Swanson's patent claims based upon a '647 prior art patent, the claims were amended and a patent was issued. The patent is owned by Surmodics, which licensed the patent to Abbott. Later, in an infringement litigation against Syntron involving the same issued patent, the CAFC affirmed a district court judgment finding that the '647 prior art patent did not anticipate the asserted claims.

After losing at the CAFC, Syntron filed for *ex parte* re-examination of the issued patent, asserting again that the claims were anticipated by the '647

prior art patent. The Patent and Trademark Office (PTO), pursuant to 35 U.S.C. § 303, and a substantial new question (SNQ) of patentability, agreed to re-examine the issued patent. Swanson, on appeal, argued that the '647 prior art patent was already considered in each of the underlying patent application's examinations as well as the litigation and, thus, cannot serve as a 'new' basis for re-examination. The CAFC observed that Congress, in amending Section 303 in 2002, stated that: "The existence of a substantial new question of patentability is not precluded by the fact that a patent or printed publication was previously cited by or to the Office or considered by the Office." The CAFC found that the '647 reference was never considered by the PTO for the same particular purpose. The PTO relied upon this reference only as a secondary reference in an obviousness rejection of a broader claim. The CAFC affirmed this decision (*In re Swanson* (Fed. Cir. 2008)).

## Trends in patent filings and litigation

The long-standing US dominance in the number of patent applications filed declined during 2008 to less than half of the total number of filings, according to Law 360 earlier this year. Observers believe this to be the result of the worldwide economic downturn. That said, patent litigation is usually counter-cyclical during economic downturns, with increases in activity. Considering the statistics across the past five years, the number of new case filings has remained steady.

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