

IP Strategies

Nine Months After *Bilski* and Awaiting the Supreme Court's Decision: A Canvas of BPAI and Federal Court Cases

In the November 2008 issue of this Newsletter, we reported the highly anticipated *en banc* Federal Circuit decision in *In re Bilski*. There, the Federal Circuit addressed the meaning of the term “process” in 35 U.S.C. § 101 and set forth the sole and exclusive test for determining whether a claim to a process contains patent-eligible subject matter. Recognizing that laws of nature, scientific truths, natural phenomena, mathematical algorithms, abstract ideas, and mental processes (collectively, “fundamental principles”) “are part of the storehouse of knowledge of all men, free to all men and reserved exclusively to none,” the Federal Circuit held that, while one cannot patent and thus preempt all use of fundamental principles, one may patent *an application* of such a fundamental principle if it meets the “machine-or-transformation test.” Under the machine-or-transformation test, a claimed process constitutes patent-eligible subject matter *only if* (i) it is tied to a particular machine or apparatus or (ii) it transforms an article into a different state or thing.

Eight months after the Federal Circuit's decision in *Bilski*, the Board of Patent Appeals of Interferences (the “BPAI” or “Board”) has issued at least forty-eight opinions, the federal district courts have issued at least nine opinions and the Federal Circuit has issued at least two published opinions touching on the patent eligibility of process claims under the *Bilski* standard. Notwithstanding these judicial developments, the patent applicant in *Bilski* filed a *writ of certiorari* asking the U.S. Supreme Court to review the Federal Circuit's decision. On June 1, 2009, the Supreme Court granted *Bilski's* request. While we anxiously await the Supreme Court's opinion, this article seeks to (i) delineate observed trends in 35 U.S.C. § 101 jurisprudence

before the lower courts, with respect to the machine prong of the machine-or-transformation test, based on a sampling of twenty-five opinions and (ii) answer some of the questions we asked in our last Newsletter.

Background on the Federal Circuit Opinion

In *Bilski*, the claim at issue was directed to a method of hedging risk in the field of commodities trading. Specifically, the claim encompassed the exchange of legal rights to purchase some commodity at a given price during a given time period. As to the machine prong of the machine-or-transformation test, the patent applicants admitted that the claim was not limited to any specific machine or apparatus. Having not satisfied the machine prong, the court turned to the transformation prong and ruled that the claim failed to transform an article into a different state or thing. Accordingly, the court affirmed the Patent Office's decision to reject the claim under 35 U.S.C. § 101.

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Clarification of the Machine Prong

In *Bilski*, the Federal Circuit gave little guidance with respect to the precise contours of the machine prong of the machine-or-transformation test, or answers to particular questions, such as whether or when recitation of a computer suffices to tie a process claim to a particular machine. Indeed, in our prior Newsletter, we identified at least three questions left unanswered by the Federal Circuit: (i) whether or when recitation of a computer or general purpose processor suffices to tie a process claim to a particular machine; (ii) what kind of ties between the claimed processes and the recited machine and/or their degree of connection are required to satisfy the machine prong; and (iii) whether use of abstract categories of machines (e.g., “diagnostic imaging devices” instead of “X-ray machines”) will satisfy the machine prong or expose applicants to impermissible field-of-use limitations? Based on a sampling of twenty-five opinions applying *Bilski*, a few observations can be made.

Of the twenty-five opinions sampled, only three (or twelve percent) found claims drawn to patent-eligible subject matter. Certain trends have emerged. Generally, method claims were found to have violated 35 U.S.C. § 101 if the method: (i) did not recite something concrete; (ii) merely recited a near-machine abstraction; or (iii) was limited to a general purpose device. At the same time, methods were generally found to constitute patent-eligible subject matter if (iv) the claim recited a machine or physical object that appeared to be specific with respect to a specified function or application, i.e., the claim was directed to a specific purpose computer.

I. Machine Prong: Method Claims Must Recite Something Concrete

First, it is clear that process claims that do not recite, require or even suggest any connection to a concrete machine do not satisfy the machine prong. One such claim was addressed by the Federal Circuit in *In re Ferguson*. There, the court addressed the following claim:

A method of marketing a product, comprising:
developing a *shared marketing force* . . . ;
using said shared marketing force to market a
plurality of different products . . . ;

obtaining a share of total profits . . . ; and
obtaining an exclusive right to market each of
said plurality of products
(Emphasis added.)

Although applicants argued that the method claim was tied to the use of a shared marketing force and thus satisfied Section 101, the court refused to accept that a “marketing force” was a machine or apparatus. Citing *In re Nuijten*, the court defined a “machine” as “a concrete thing, consisting of parts or of certain devices and combination of devices. This includes every mechanical device or combination of mechanical powers and devices to perform some function and produce a certain effect or result.” Because a marketing force is not a concrete part, device or combination of devices, the claim was not directed to patent-eligible subject matter.

II. Machine Prong: Claims Must Not Merely Be Directed to Near-Machine Abstractions

Second, claims that are directed to steps that merely require the use of “near-machine abstractions” will not generally carry the day. Although no opinion uses the term “near-machine abstraction,” it is clear that courts reject method claims that incorporate a fundamental principle but throw in a limitation that merely appears, for all intents-and-purposes, like a machine. These “near-machine abstractions” are generally not sufficient under the *Bilski* machine prong because they are abstract constructs capable of being implemented in one’s head.

The Northern District of California addressed this very issue in *Cybersource Corp. v. Retail Decisions, Inc.* There, the court addressed a claim directed to a “method for verifying the validity of a credit card transaction *over the Internet*” where no structure was recited in the body of the claim. Plaintiff argued that the claims required implementation in myriad general and special purpose computers, routers, hubs, switches and other specialized hardware comprising the “Internet.” The court, however, disagreed, finding that the Internet is not a particular machine but rather an abstraction. According to the court, “[i]f every computer user in the world unplugged from the [I]nternet, the [I]nternet would cease to exist, although every molecule of every machine remained in place. One can touch a computer

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or a network cable, but one cannot touch ‘the [I]nternet.’” The court buttressed its holding by finding that even if the Internet was a machine, it failed the machine prong because the limitation (i) was nothing more than “insignificant extra-solution activity” that failed to make patentable an otherwise unpatentable mental process; and (ii) did not impose meaningful limits on the scope of the claims because it would preempt the use of a fundamental mental process across an extraordinarily large and important segment of the commercial system. “A limitation to ‘only’ the vast area of online credit card transactions is not meaningful.”

Similarly, multiple BPAI decisions have found claims (i) reciting abstract software components such as a “program”; and (ii) finding abstract objects such as “databases” and “interfaces” unpatentable. In *Ex parte Snyder*, the Board addressed the following claim:

- A process for converting text to XML,
comprising the steps of:
- (a) defining a *transformer program* having a plurality of compound statements . . . ;
 - (b) receiving a text stream; [and]
 - (c) *executing the transformer program*
- (Emphasis added.)

The Board in *Snyder* held that the method could “reasonably be interpreted to encompass a human being performing these steps.” “In this case, we do not even find a nominal recitation of structure.” Because a computer program is not a physical machine, the claim failed the machine-or-transformation test.

Non-software abstractions have also been found to be insufficient to satisfy the *Bilski* machine prong. In *Ex parte Shahabi*, the Board addressed the following claim:

- A method, comprising:
- processing at least one query . . . to produce a transformed query; and
 - performing a range-sum query *on a database* using the transformed query to produce a result.
- (Emphasis added.)

Similarly, in *Ex parte Schultz*, the Board addressed the following claim.

- A method for interfacing with a human user,
comprising:

- assigning a tonality to respective ones of groups of information . . . ;
- generating a voice transmission based on one of the groups . . . ; and
- sending to the human user, *via an interface*, the voice transmission for aural perception by the human user.

(Emphasis added.)

In each instance, the Board found that the claims could be performed as mental steps or via human activity and need not involve a machine at all. In *Shahabi*, the Board construed the term “database” not as a specific machine, but as any collection of data elements in the abstract. In *Schultz*, the Board construed the term “interface” as any type of interface including, for example, “an acoustic interface,” notwithstanding the fact that the specification’s preferred embodiment of the invention included audible, interactive user interfaces for navigating a voice user interface system or an interactive voice response system. Because abstract collections of data elements and acoustic interfaces are not machines, the Board held that each claim was not directed to patent-eligible subject matter.

III. Machine Prong: Claims Must Not Be Limited Merely to General Purpose Devices

Several Board decisions make one point clear: a general purpose machine, processor or device will not render an otherwise-ineligible process claim patent eligible under 35 U.S.C. § 101. The Board decisions ostensibly appear to follow the guidelines set by the U.S. Supreme Court in *Gottschalk v. Benson*. In *Benson*, the court addressed claims directed to a process of converting data in binary-coded decimal format to pure binary format, using an algorithm programmed onto a digital computer. The Supreme Court stated that “[t]he mathematical formula involved here has no substantial practical application except in connection with a digital computer, which means that . . . the patent would wholly preempt the mathematical formula and in practical effect would be a patent on the algorithm itself.”

In *Ex parte Daughtrey*, the Board considered a claim directed to a “method for producing a concise summary of fare rules and restrictions that the fare rules place on fares” where the only concrete “thing” recited or

suggested in the claim was a “user output device” for displaying the summary of the method results. In the same appeal, the Board considered a method claim that “recite[s] a single process step of rendering data on a monitor for providing a fare rule summary tool as a user interface *for display on a monitor.*” Similarly, in *Ex parte Halligan*, the Board considered a claim that recites “a programmed computer method” in which *each of the process steps* for providing documentation, analysis, auditing, accounting, protection, and other management relating to an existence, ownership, access and employee notice of trade secrets of an organization *is performed by the programmed computer.* Finally, in *Ex parte Enenkel*, the Board considered a “machine-processing method for computing a property of a mathematically modeled physical system” where each of the steps is performed “*via a machine processing unit.*”

In each of these cases, the BPAI rejected the claims as drawn to non-statutory subject matter. In *Daughtrey*, the Board held that the claimed “user output device” and “monitor” amounted to insignificant extra-solution activity and lacked meaningful limits. In *Halligan*, the Board found that, were the use of “the programmed computer” to satisfy the *Bilski* machine prong, it “would exalt form over substance and would allow pre-emption of the fundamental principle present in the non-machine implemented method by the addition of the mere recitation of a programmed computer.” This field-of-use limitation was insufficient to render the claim eligible for patent protection. Lastly, in *Enenkel*, the Board cited the language of *Benson* and held that the claim could not issue for it would wholly preempt the mathematical formula and in practical effect would be a patent on the algorithm itself.

IV. Machine Prong: Claims Must Recite a Machine or Physical Object and Must Specify or Suggest a Specific Function or Application Associated with the Machine or Physical Object

Each of the three opinions that found claims directed to patent-eligible subject matter were issued by the BPAI. The first such case is *Ex parte Borenstein*, where the Board considered the following claim:

A method for providing catalog information for presentation to a user of a store in an electronic commerce system, comprising the steps of:

storing a first portion and at least a second portion of said catalog information in said store and in at least one profile store, respectively, to share said at least one second portion of said catalog information between said store and at least one second store; and

storing path information defining a sequential relationship between said store and said at least one profile store for retrieving said catalog information for said store.

(Emphasis added.)

In two short sentences the Board held the method drawn to patent-eligible subject matter because “while the storage of information . . . could arguably be done as a mental process, the recitation of a structured relationship between multiple stores that requires ‘path information’ inherently implies that this information must be stored on a computer or database. This ‘particular’ computer or database is sufficient structure to meet the machine prong of the machine-or-transformation test of *In re Bilski.*” For this reason alone the Board reversed the examiner’s final rejection of the method claim.

In view of the overwhelming, consistent body of 35 U.S.C. § 101 jurisprudence noted above, the Board’s terse *opinion* appears, at first glance, to be an outlier with respect to the tenet that a claim must not merely be limited to a general purpose device such as a computer or database. The author of this article posits that the decision, however, may not in fact be an outlier. The claim requires the method to be tied to “an electronic commerce system,” where the electronic commerce system includes the “electronic” stores recited in the body of claim. The claimed stores are in fact machines, i.e., computers and/or databases, specific to the function of an electronic store. In other words, the claim does not require a general purpose processor or database, but rather requires special purpose machines tailored to a specific function, i.e., stores in an electronic commerce system.

Two other opinions finding claims drawn to patent-eligible subject matter are not as controversial and illustrate examples of claim language that has satisfied

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the machine prong of the machine-or-transformation test. For example, in *Ex parte Myka*, the BPAI considered the following claim:

A method for wireless bonding of devices and communicating media file transfer parameters, the method comprising: monitoring, *at a master device*, an area of interest for the presence of potential bondable devices; receiving, *at the master device*, a presence signal from a potential bondable device; determining bond capability of the *potential bondable device*; approving the *potential bondable device* as a bonded device; and communicating, *from the master device to the bonded device*, media file transfer parameters
(Emphasis added.)

In *Ex parte Le Buhan*, the Board considered the following claim:

A method for storing content encrypted by control words in a receiver/decoder unit having a local storage unit and being connected to a security unit . . . , the method comprising[:]
storing the encrypted content . . . *in the storage unit*; and *storing in the storage unit* the system keys . . . , the system keys being encrypted by a predefined local key *contained in the security unit*.
(Emphasis added.)

In *Myka*, the Board found that the claims were performed by a specific machine, namely, the master device or a bondable/bonded slave device. The Board observed that the claims required the communication of information between the master device and the bonded device, and therefore were tied to a particular machine or device. Presumably, the Board gave weight to the fact that the term “slave device” was characterized in the specification as a media capture device. Accordingly, at least the claimed slave device was not merely a general computer. Rather, it was configured as a media capture device and was

capable of assisting in the communication of media files between itself and a master device.

Similarly, in *Le Buhan*, the Board found that the receiver/decoder unit having a logical storage unit (e.g., a magnetic hard disk) and being connected to a security unit (e.g., a smart card) was “sufficient for satisfying the ‘particular machine’ prong of the *Bilski* machine-or-transformation test.” Like the *Myka* panel, the *Le Buhan* panel presumably gave weight to the fact that neither the receiver/decoder unit nor its connected security unit were merely general purpose computers. Rather, they were configured to have a specific function or application, i.e., storing content and system keys.

Conclusions Reached

To date, the BPAI, the federal district courts and the Federal Circuit have taken the approach that claims that (i) do not recite anything concrete; (ii) merely recite a near-machine abstraction such as software and constructs capable of being implemented in one’s head and via a machine (e.g., a database); or (iii) merely act as a general purpose machine will fail the machine prong of the machine-or-transformation test. While the author of this article believes that the former two approaches are defensible and sound, this author believes that the latter approach should be reconsidered. Specifically, it is the author’s opinion that (i) claims using general purpose machines solely for insignificant post-solution activity (e.g., display of a result on a monitor); and (ii) claims that preempt *all* substantial practical application of the method should be impermissible under 35 U.S.C. § 101. However, it is this author’s further opinion that courts should strictly follow the holding in *Gottschalk v. Benson* and not blindly reject claims merely because they call for a general purpose machine or processor.

In other words, claims reciting an algorithm implemented on a general purpose machine or processor should be permissible under 35 U.S.C. § 101 if the underlying algorithm itself is capable of being performed in a variety of contexts (e.g., in one’s head, using ‘pen and paper,’ using application-specific circuits, or using a processor executing program instructions). To rule otherwise ignores the Supreme Court’s *Benson* holding and exalts form over substance, where apparatus claims drawn to circuit

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components configured to perform the same “function” are generally patent-eligible.

Obviously, there is no guarantee that the Supreme Court’s decision in *Bilski* will have any effect on the trends concerning interpretation of the machine prong of the Federal Circuit’s test. Indeed, unless the Supreme Court overturns the machine-or-transformation test, it is possible that the Supreme Court could affirm the machine-or-transformation test and rule only on the interpretation of the transformation prong discussed in *Bilski*.

The patent attorneys at Vedder Price will continue to monitor the court’s application of *In re Bilski* and will report back on the Supreme Court’s ruling. ■

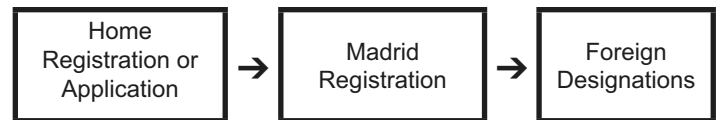
International Trademark Registration (Madrid Protocol Trademark)

Globalization of markets is an increasing part of business reality. The World Wide Web provides something of a double-edged sword to the sellers in that the Internet is an uncharted frontier, and its growth often results in uncontrolled but much-needed foreign sales by allowing easy access to foreign distribution channels. With globalization comes international brand recognition, overseas infringement, and online counterfeits. As a consequence, local brand owners must balance the cost of obtaining and maintaining foreign trademark protection with anticipated sales in the jurisdiction. Small corporations are often deterred from filing foreign registrations unless they are assured by foreign distributors of a significant level of sales.

Unlike copyrights that attach to works upon their creation and are valid, irrespective of the market conditions around the world, trademarks are jurisdiction-specific and must be secured in each country. The first real international trademark system came into force in the U.S. in late 2003 and is called the Madrid Protocol, or simply “Madrid.” Madrid eliminates the need to pay and set up a worldwide net of local registrations in every country by providing the owner with an international trademark registration that may be enforced around the globe.

Under Madrid, a home country trademark is filed with the local trademark office and is then used as the basis for an international registration at the

International Registry, located at the World Intellectual Property Organization (WIPO) in Geneva, Switzerland. The Madrid registration is not enforceable under WIPO, but serves as the template for any subsequent national designation to any of the Madrid countries.



The Madrid database registry can be accessed at: www.wipo.int/ipdl/en/search/madrid/search-struct.jsp.

Madrid is the first international trademark system available in the U.S. Before the adoption or enactment of Madrid, trademark owners relied on networks of foreign associates operating under the supervision of a local counsel. Owners were forced to incur costs of redundant parallel foreign prosecutions in different countries. Translations of priority documents were often required, and renewals of marks were at different dates. Madrid simplifies the renewal process. A single fee is paid at WIPO every 10 years, and the international bureau dispatches a portion of that fee to each local office. No foreign associate fee is needed at renewal, so the savings can be substantial for simple marks.

In addition, the Madrid database places, under a single umbrella, links to each nationalized mark. Holding a registration under Madrid allows for easy access to a mark’s entire portfolio in a large number of countries. U.S. applicants file for Madrid at the U.S. Patent and Trademark Office. The application must claim as its “root” either a pending U.S. application or a U.S. registration. Foreign countries where the mark needs to be nationalized are designated at the time of filing, using a simple menu and the associated fee calculator. Other designations are always possible under Madrid.

Today, 78 states are members of Madrid, including Russia, the EU, parts of Africa, the Balkans, and most of Asia. The acceptance in the U.S. of Madrid coincides with an explosion in filings under this regime. In 2008, Madrid filings increased from 22,000 to 33,000. This year, the U.S. ranks third in number of new filings with 2,500 new applications. Last year, over 10,000 foreign Madrid registrations were extended to the U.S. This

accounts for approximately one out of three foreign applications filed in the U.S.

The two largest commercial partners of the U.S., namely Canada and Mexico, are still absent from Madrid; they are expected to join before the end of the decade. In the meantime, Madrid protection is mostly available for Asia, Europe, and Australia. Under Madrid, the trademark law of individual countries remains unchanged, as does prosecution. Local counsel may still be required if problems are encountered during national phase prosecution. After all, many trademark offices offer little or no substantive prosecution. Madrid marks, once nationalized to these offices, may be obtained in the normal course of business.

Unlike the Patent Cooperation Treaty, where international applications are never registered and then elapse after a fixed period of time, Madrid registrations issue and never elapse. Applicants must respect the six-month priority rights afforded by the Paris Convention. But once priority has been lost, national designations can occur at any time simply by filing a request for designation. Once a Madrid is in place and infringement occurs in an unprotected country, your U.S. counsel can immediately apply for registration in the country of infringement. The same day, a cease-and-desist action may be filed and include a warning that (i) an international Madrid registration is in place, (ii) a pending application has now been filed in the country of infringement, and (iii) some type of common law right or trade restriction rule may also protect against infringement. For small Internet-related infringement, such a notice may be a sufficient deterrent.

We must nevertheless avoid painting an unrealistic portrait of this system. While cost savings on an entire portfolio can reach upwards of 50 percent of the normal prosecution costs, there remain many limitations and obligations that stand as obstacles to the unwary. Under the old system, designations of goods and services could be customized for each country. Under Madrid, the full designation must be found in the Madrid registration, and by association, must also be found in the U.S. application or registration. If applicants wish to customize the designations for certain goods or services, they may do so for only a portion of these goods and services.

Absent the filing of several Madrid registrations, the designations of goods and services around the world must be closely monitored and coordinated to obtain an optimal result. Also, increased availability of goods in a single country requires the filing of a new Madrid application.

Under Madrid, if a local office takes more than 18 months to act, registration may be granted automatically.

Not all countries are member states of the Madrid Protocol. Trademark owners may need to file applications in non-Madrid countries that are equivalent to a Madrid application. Once a country joins Madrid, the merger of related applications and registrations is not automatic, but must be requested. Madrid registrations are also vulnerable to so-called "core attacks." If the home application ultimately fails, the Madrid registration also fails, and foreign designations must then be localized.

The benefits of the Madrid Protocol are available only to U.S. citizens, U.S. corporate entities, and foreign entities with significant business contacts in the U.S. Because Canada and Mexico are not yet member states, problems may arise if, for instance, a U.S. corporation that owns a Madrid registration transfers its intellectual property portfolio to a Canadian purchaser. Foreign corporations domiciled in non-Madrid countries may not be able to benefit from the advantages of the Madrid Protocol. Finally, renewal of the Madrid automatically renews the entire portfolio of marks designated or associated with the Madrid. A single fee is paid every 10 years for the maintenance of a mark around the world!

Attorneys at Vedder Price are experienced with the filing of Madrid applications and conducting cost analyses for existing and potential marks under the Madrid Protocol, including merger procedures to determine when this type of protection is needed. ■

Case Law Review

“MAKE, USE, OR SELL” LICENSE INHERENTLY INCLUDES RIGHT FOR THIRD-PARTY MANUFACTURE UNLESS EXPRESSLY PROHIBITED

CoreBrace, LLC v. Star Seismic LLC
(Fed. Cir. 2009)

A patent license including the right to “make, use, or sell” inherently includes the right for a third party to manufacture the product unless expressly prohibited, according to the Federal Circuit.

In January of 2008, CoreBrace sued Star Seismic for breach of a patent license agreement and for patent infringement. The patent at issue in the case was U.S. Patent 7,188,452 (the ‘452 patent), which is directed to a brace for use in the fabrication of earthquake-resistant steel-framed structures. In June 2007, the inventor and Star Seismic entered into a non-exclusive license agreement by which Star Seismic was granted the non-exclusive right to “make, use, and sell” the licensed products. The non-exclusive license did not explicitly provide for the right to have a licensed product manufactured by a third party. The license did stipulate, however, that Star Seismic could not “assign, sublicense, or otherwise transfer” its rights to any party except an affiliated parent or subsidiary company. The inventor later transferred his interest in the ‘452 patent to CoreBrace.

Star Seismic contracted for a third party to manufacture a licensed product for its own use. CoreBrace found this practice to be a breach of the non-exclusive license because of the involvement of the third party. CoreBrace terminated Star Seismic’s license pursuant to a provision in the license that allows for termination in the event of breach, and filed suit in the U.S. District Court for the District of Utah for breach of license and patent infringement. Star Seismic moved to dismiss the complaint for failure to state a claim, and the district court granted Star Seismic’s motion.

The district court found that a “make, use, or sell” provision inherently includes a right to have the product made by a third party, absent a clear indication to the contrary. The court further reasoned that, even where a contract includes the prohibition of sublicensing, as is the case here, third-party

manufacturing rights are granted unless they are expressly prohibited. The court further reasoned that CoreBrace did not properly follow the termination clause in the license because the license’s termination provision required CoreBrace to provide a 30-day notice before termination. The court concluded that, since the license was not breached or properly terminated, Star Seismic could not have infringed the patent as alleged.

On appeal, CoreBrace argued that the district court erred because the license reserved all rights to CoreBrace not expressly granted, and the right for third-party manufacturing was not expressly granted. CoreBrace further argued that third-party manufacturing rights are not inherent in a “make, use, or sell” agreement.

The Federal Circuit applied general rules of contract law, since no Utah Supreme Court case had addressed the scope of a “make, use, or sell” license in this context. The court applied *Carey v. United States* from the Court of Claims, and held that a license to “make, use, or sell” inherently includes the right to have the product made by a third party, absent express contrary intent. The court found CoreBrace’s arguments to be unpersuasive, and affirmed the district court’s grant of dismissal of the case for failure to state a claim.

Practice Tip:

When creating or evaluating a patent license, remember to explicitly state prohibited practices, especially with regard to sublicensing and third-party involvement.

PRODUCT-BY-PROCESS CLAIMS ARE LIMITED BY PROCESS TERMS WHEN DETERMINING INFRINGEMENT

Abbott Laboratories v. Sandoz, Inc.
(Fed. Cir. 2009)

A product-by-process claim is limited by process terms when determining infringement, according to the Federal Circuit sitting *en banc sua sponte*.

Astellas Pharma, Inc. is the owner of U.S. Patent 4,935,507 (the '507 patent) regarding the formulation of crystalline cefdinir. Abbott Laboratories is the exclusive licensee of the '507 patent. Two disputes reached the federal courts surrounding the '507 patent. In the Eastern District of Virginia, Lupin Pharmaceuticals sought a declaratory judgment of non-infringement after its Abbreviated New Drug Application for a generic version of the drug was approved. In the Northern District of Illinois, Abbott sued Sandoz and others for infringement of the '507 patent. The Eastern District of Virginia granted-in-part Lupin's motion for summary judgment of non-infringement, and the Illinois court denied Abbott's request for a preliminary injunction. Since the claim construction of the '507 patent was at issue in both appeals, the Federal Circuit addressed both cases together.

The '507 patent contains five claims. Claim 1 describes crystalline cefdinir using its chemical name and defining its characteristics using powder X-ray diffraction angle peaks. Claims 2 to 5, however, do not define any powder X-ray diffraction peaks, but describe the process by which the compound can be created by using the phrase "obtainable by." The Virginia court's claim construction, which was also used by the Illinois court, found these claims to be product-by-process claims. The Virginia court followed the rule set forth in *Atlantic Thermoplastics Co., Inc. v. Faytex Corporation*, which holds that a product-by-process claim is limited by the process that is described in the claims. Following this claim construction, the Virginia court granted-in-part summary judgment of non-infringement for Lupin, and the Illinois court denied Abbott's request for a permanent injunction.

Abbott and Astellas appealed the district courts' decisions, arguing that product-by-process claims are not limited to the process described in the claim. Abbott and Astellas relied on *Scripps Clinic & Research Foundation v. Genentech, Inc.* to support their position regarding this interpretation of product-by-process claims. The Federal Circuit, sitting *en banc* on this issue, adopted the rule from *Atlantic Thermoplastics*, stating "process terms in product-by-process claims serve as limitations in determining infringement." Agreeing with the claim construction of the Virginia court, the Federal Circuit affirmed the district courts' decisions.

Practice Tip:

Product-by-process claims should be used carefully because infringement can be limited to those process terms used in the claims.

COVENANT NOT TO SUE EQUIVALENT TO NON-EXCLUSIVE PATENT LICENSE

TransCore, LP and TC License, Ltd. v. Electronic Transaction Consultants Corporation

(Fed. Cir. 2009)

A settlement agreement with a covenant not to sue is equivalent to a non-exclusive patent license and implicates the doctrine of patent exhaustion, according to the Federal Circuit.

TransCore is in the business of manufacture, sale and installation of automated toll-collection systems and is the assignee of several patents of related technologies. In 2000, TransCore sued Mark IV Industries, a competitor, for infringement of several of these patents. The action was resolved with a settlement in which Mark IV agreed to a payment to TransCore in exchange for an unconditional covenant not to sue and release of all existing claims regarding the patents at issue in the suit.

Electronic Transaction Consultants Corporation (ETC), a consulting and systems integration firm, won a contract with the Illinois State Toll Highway Authority to install and test a new open-road tolling system. As part of the contract, ETC agreed to install and test a toll-collection system purchased from Mark IV. TransCore sued ETC for infringement of three patents that were part of the settlement agreement between TransCore and Mark IV, as well as a patent that was pending before the Patent and Trademark Office, but was not in existence at the time of the original settlement. ETC argued, in support for its motion for summary judgment, that the TransCore-Mark IV settlement agreement allowed its own activities under the doctrines of patent exhaustion, implied license and legal estoppel. The U.S. District Court for the Northern District of Texas granted ETC's motion for summary judgment and TransCore appealed to the Federal Circuit.

On appeal, TransCore asserted that, while patent exhaustion provides that patent rights are terminated upon the initial authorized sale of a patented item by the patent holder, the sale in this situation was not authorized. TransCore reasoned that the unconditional covenant not to sue that was part of the TransCore-Mark IV settlement was not an authorization of sales because there was no authorized sale by the patent holder, and thus the doctrine of patent exhaustion was not at issue here.

The Federal Circuit agreed with the district court and held that the doctrine of patent exhaustion applies in this context. The Federal Circuit further explained that, because a patent holder can exclude others only from practicing a patent and not convey an affirmative right to practice the patented invention, a non-exclusive patent license is equivalent to a covenant not to sue. With this in mind, the court further concluded that the settlement agreement in this case amounted to an authorization of sales. The Federal Circuit affirmed the district court's grant of summary judgment for ETC.

Practice Tip:

Consider the impact of future sales when evaluating settlement agreements with covenants not to sue.

DEMONSTRATION OF INVENTION NOT CONSIDERED EXPERIMENTAL USE, WHICH THUS INVALIDATES PATENT

Clock Spring, L.P. v. Wrapmaster, Inc.
(Fed. Cir. 2009)

A demonstration of an invention can be considered a public use that bars patentability, depending on the circumstances surrounding the event and the demonstration's purpose, according to the Federal Circuit.

Clock Spring and Wrapmaster are companies in the business of repairing high-pressure gas pipelines. Clock Spring is the exclusive licensee of U.S. Patent 5,632,307 (the '307 patent) regarding a method of repairing a defective gas pipeline. In 2005, Clock Spring sued Wrapmaster for infringement of all the claims of the '307 patent. Wrapmaster filed a motion for summary judgment of invalidity of all the claims of the '307 patent. The U.S. District Court for the Southern District of Texas granted the motion, finding the claims of the '307 patent invalid due to obviousness. Clock Spring appealed the case to the Federal Circuit.

On appeal, the Federal Circuit did not address the issue of the validity of the '307 patent regarding obviousness. Instead, the court found the patent invalid based on prior public use. Wrapmaster argued that, in addition to being obvious, the patent was invalid due to a public demonstration that occurred in October 1989, more than the one year required prior to the filing of the patent application in 1992. The demonstration was recorded in a report by the Gas Research Institute, which documented a demonstration of the pipeline repair method conducted by the inventor. The Federal Circuit found this demonstration to be a public use rather than an experimental use. The court found the inventor's lack of control over the circumstances and personnel surrounding the demonstration to be particularly convincing. The court further explained that the demonstration's lack of refinement or perfection of the invention leaned in favor of non-experimental use as well. After this analysis, the Federal Circuit affirmed the grant of summary judgment to Wrapmaster. ■

Practice Tip:

Be sure to make inventors and other potential patent owners aware of the risks to patentability of public display or demonstration of inventions.

Vedder Price Adds New Attorneys to Intellectual Property Group—Washington, D.C. Office

Ajay A. Jagtiani—formerly Partner and founder of Jagtiani+Gutttag—has joined Vedder Price’s Intellectual Property Group as a Shareholder. Mr. Jagtiani has nearly 20 years of experience in all phases of patent prosecution, including patentability, validity and infringement opinions, procurement of domestic and foreign patents, client counseling, licensing and use agreement preparation and negotiation, and the protection and valuation of intellectual property in mergers and acquisitions. He has extensive experience in all areas of electrical engineering, including computer hardware and software, electro-optics and communication technologies. In addition, Mr. Jagtiani supports numerous clients in all areas of biotechnology, including diagnostics, genomics, immunotherapy, proteomics, pharmaceuticals and other microbiology techniques. His clients include a wide range of corporate and governmental entities, from start-up enterprises and technology transfer offices to NASA and the Naval Research Laboratory to Fortune 500 companies. He has maintained security clearances with both the Department of Energy and the Department of Defense. In addition, Mr. Jagtiani has extensive experience in the representation of university research centers in a wide range of intellectual property matters, including patent prosecution, licensing and development agreements, and patent infringement matters. A graduate of Virginia Polytechnic Institute and State University (BSEE, 1988) and the Catholic University of America (J.D., 1993), Mr. Jagtiani has exclusively practiced in the area of intellectual property. Mr. Jagtiani is registered to practice with the U.S. Patent and Trademark Office.

Mark J. Gutttag—formerly a Partner at Jagtiani+Gutttag—has joined Vedder Price’s Intellectual Property Group as Of Counsel. Mr. Gutttag has 22 years of experience in all aspects of patent prosecution, including patentability, validity and infringement opinions, procurement of domestic patents, and client counseling. A chemistry and biochemistry specialist, he possesses extensive experience in such areas as biotechnology, pharmaceuticals, plastics, food products, metallurgy and inorganic chemistry. Mr. Gutttag possesses a wide range of client experience, from independent inventors to established companies in the fields of organic chemistry, inorganic chemistry and marine equipment. He is registered to practice before the U.S. Patent and Trademark Office, and is admitted to the Court of Appeals for the Federal Circuit.

David J. Lanzotti—formerly an Associate at Jagtiani+Gutttag—has joined Vedder Price’s Intellectual Property Group as an Associate. Mr. Lanzotti focuses his practice on preparing and prosecuting domestic and foreign patent applications in diverse technical fields, with a particular emphasis on biotechnological and pharmaceutical inventions, including medical devices, diagnostics, treatment methods, small molecule drugs, polynucleotide-based therapies, such as siRNA, antisense and gene therapy, antibodies, protein engineering, bioinformatics and cell culture. Mr. Lanzotti received his law degree from the University of North Carolina—Chapel Hill in 2006, a Ph.D. in genetics and molecular biology from the University of North Carolina—Chapel Hill in 2003, and his B.S. in biochemistry/bioengineering from the University of Illinois at Urbana-Champaign in 1996. Mr. Lanzotti is registered to practice before the U.S. Patent and Trademark Office.

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Vedder Price P.C. offers its clients the benefits of a full-service patent, trademark and copyright law practice that is active in both domestic and foreign markets. Vedder Price's practice is directed not only at obtaining protection of intellectual property rights for its clients, but also at successfully enforcing such rights and defending its clients in the courts and before federal agencies, such as the Patent and Trademark Office and the International Trade Commission, when necessary. We also have been principal counsel for both vendors and users of information technology products and services.

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We welcome your suggestions for future articles. Please call Angelo J. Bufalino, the Intellectual Property and Technology Practice Chair, at 312-609-7850 with suggested topics, as well as other suggestions or comments concerning materials in this newsletter.

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