

# IP Strategies

## The U.S. Supreme Court's Ruling in *Bilski v. Kappos*: Hedging Against Bright-Line Rules

As reported in our recent IP Client Alert, the U.S. Supreme Court has issued its decision in *Bilski v. Kappos* concerning the boundaries of what constitutes patentable subject matter. In so doing, the Court offered highly divergent views on the central issue of the case: What are the limits on patentable subject matter and, specifically, what types of "processes" should be eligible for patent protection? Nevertheless, the Court was unified on at least two points: that the patent applicants in this matter were not entitled to a patent and that the so-called machine-or-transformation test, contrary to the opinion of the U.S. Court of Appeals for the Federal Circuit, is not the exclusive test for determining subject matter eligibility. While the Court did not outright abolish "business method" patents as many had hoped, it did not make it any easier to obtain such patents either. In the end, regardless of whatever subject matter eligibility tests lower courts may create, the Court once again emphasized that any such rules must be commensurate with the Court's overarching rule that patents directed to "laws of nature, physical phenomena, and abstract ideas" are not patentable.

### Background

A little over thirteen years ago, Bernard Bilski and Rand Warsaw ("Bilski") filed a patent application including claims directed to a method of hedging risk in the field of commodities trading, e.g., the buying and selling of coal by a "commodity provider" between a mining company and an energy utility. Claim 1 recited:

A method for managing the consumption risk costs of a commodity sold by a commodity provider at a fixed price comprising the steps of:

(a) initiating a series of transactions between said commodity provider and consumers of said commodity wherein said consumers purchase said commodity at

a fixed rate based upon historical averages, said fixed rate corresponding to a risk position of said consumer;

(b) identifying market participants for said commodity having a counter-risk position to said consumers; and

(c) initiating a series of transactions between said commodity provider and said market participants at a second fixed rate such that said series of market participant transactions.

As later admitted by Bilski, nothing in this claim (or the other claims) stated that these steps were to be performed by any type of machine or device and, further, each of the steps could theoretically be performed by a person.

During the examination phase, the examiner rejected all of the claims as being directed to ineligible subject matter under 35 U.S.C. § 101<sup>1</sup> based on the so-called "technological arts" test. The Board of Patent Appeals and Interference (the "Board"), the U.S. Patent Office's internal appellate body, sustained the examiner's rejections on the basis that the claims involved only mental steps and did not transform any physical matter. In a preview of the U.S. Supreme Court's ultimate holding, the Board determined that the claims recited a fundamental principle, would substantially pre-empt all uses of that fundamental principle if allowed and were therefore directed to an impermissible abstract

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idea. The Applicant then appealed to the U.S. Court of Appeals for the Federal Circuit (the "Federal Circuit").

In a highly publicized decision in October 2008, the Federal Circuit issued a 9–3 opinion striking down the claims and "clarify[ing] the standards applicable in determining whether a claimed method constitutes a statutory 'process' under § 101." In affirming the Patent Office's conclusion that Bilski's claim recites a fundamental principle that would pre-empt substantially all uses of that fundamental principle if allowed, the court articulated the so-called machine-or-transformation test: "A claimed process is surely patent-eligible under § 101 if: (1) it is tied to a particular machine or apparatus, or (2) it transforms a particular article into a different state or thing." Equally important, the Federal Circuit clearly indicated that the machine-or-transformation test was the exclusive test regarding patent subject matter eligibility and, in so doing, specifically repudiated a number of previously articulated tests.<sup>2</sup> Noting Bilski's admission that the claims failed to recite any particular machine or apparatus, the court further noted that the claims failed to recite a patent-eligible transformation as well.

### *The U.S. Supreme Court's Majority Opinion*

The opinion of the Court, authored by Justice Kennedy, first notes that while § 101 is to be given broad scope, the Court has long recognized three specific exceptions to

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what is considered patentable subject matter: laws of nature, physical phenomena and abstract ideas (the "judicial exceptions"). In this vein, the Court considered the propriety of "two proposed categorical limitations" regarding

the scope of a patentable process, specifically, the machine-or-transformation test and the per se exclusion of business methods.

Regarding the machine-or-transformation test, Justice Kennedy first declared the necessity, given well-established statutory interpretation principles, to give the words of the Patent Act their ordinary meaning absent definition otherwise. In an apparent response to Justice Stevens's view in his concurrence that the Court's case law had previously established the per se exclusion of business methods, Justice Kennedy noted that any deviation from the ordinary meaning of the term "process" in the Court's precedent (i.e., those cases ruling against the patentability of "business methods") was solely in the context of explaining the judicial exceptions. Noting the definition of a "process" provided by § 100(b) of the Patent Act as a "process, art or method," Justice Kennedy was unable to find "any 'ordinary, contemporary, common meaning' . . . of the definitional terms 'process, art or method' that would require these terms to be tied to a machine or to transform an article." While noting the origin of the machine-or-transformation test in the Court's precedents, Justice Kennedy refuted the assertion that the machine-or-transformation test was the exclusive test for deciding whether a process is patent-eligible, instead referring to the machine-or-transformation test as an "important and useful clue." That is, while these precedents did use the machine-or-transformation test to assess patentability of certain processes, they did not foreclose the possibility that a valid process patent could issue even if it did not meet the machine-or-transformation test.

Regarding the categorical rejection of "business methods," Justice Kennedy continued to rely on his text-based approach to interpreting § 101. More particularly, Justice Kennedy opined that, given the § 100(b) definition of a "process" as including a "method," there appeared to be no "ordinary, contemporary, common meaning" of the word "method" that required the exclusion of "business methods." Even assuming that such a prohibition could somehow be read into the meaning of a "process," Justice Kennedy echoed the concern that "business methods" has not proven susceptible to a precise definition, thereby making it difficult to know what would or would not constitute a patent-eligible process. Further bolstering this argument, Justice Kennedy noted "the fact that federal law explicitly contemplates the existence of at least some business method patents," given the rule established by § 273 of the Patent Act that permits a defense of prior use to any

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assertion of infringement of claims defining a method, which for purposes of the defense is defined to include “a method of doing or conducting business.”<sup>3</sup> While acknowledging that § 273, being later enacted, cannot change the meaning of § 100(b) and § 101, Justice Kennedy observed that § 273 merely clarified that “a business method is simply one kind of ‘method’ that is, at least in some circumstances, eligible for patenting under § 101.”

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Having thus dispatched the machine-or-transformation test and the categorical exclusion of business methods, Justice Kennedy addressed the matter at hand, noting that all members of the Court agree that Bilski's claims are not patentable as being directed to abstract ideas. Tracing the Court's development of the “abstract idea” exclusion through its *Gottschalk v. Benson*, *Parker v. Flook* and *Diamond v. Diehr* decisions, Justice Kennedy emphasized that a “principle, in the abstract, is a fundamental truth; an original cause; a motive; these cannot be patented, as no one can claim in either of them an exclusive right.” Nor could one attempt to transform the abstract into patentable subject matter through the addition of conventional or obvious “post-solution activity.” However, this precedent also established that while an abstract idea may not be patented, an application of an abstract idea could very well be eligible.

In this case, Justice Kennedy supported the assertion that Bilski was claiming little more than an abstract idea by quoting Judge Rader's dissent in the Federal Circuit's *In re Bilski* decision: “Hedging is a fundamental economic practice long prevalent in our system of commerce and taught in any introductory finance class.” Given the

understanding that Bilski's claims “explain the basic concept of hedging, or protecting against economic risk,” allowing such claims “would pre-empt use of this approach in all fields, and would effectively grant a monopoly over an abstract idea.”

### *Justice Stevens's Concurrence*

Justice Stevens provided a concurrence (joined by Justices Ginsburg, Breyer and Sotomayor) in which he agreed, within the first paragraph, with the majority opinion that the machine-or-transformation test was not the exclusive test for determining the subject matter eligibility of processes. He then spent another 46 pages explaining, essentially in dissent, why the Court should “restore patent law to its historical and constitutional moorings” and hold that business methods are not per se patentable. More specifically, business methods are not protectable, according to Justice Stevens, because they fail to qualify as a “process” under § 101 given the long-understood, specialized meaning associated with a “process” in patent law.

Justice Stevens additionally expressed his dissatisfaction with the Court's conclusion that Bilski's claims encompass an abstract idea: “Although I happen to agree that petitioners seek to patent an abstract idea, the Court does not show how this conclusion follows ‘clearly’ . . . from our case law.” Summarizing the Court's analysis in this regard, Justice Stevens states that “the Court artificially limits petitioner's claims to hedging, and then concludes that hedging is an abstract idea rather than a term that describes a category of processes including petitioner's claims.” Perhaps illustrating one of the analytical weaknesses of the “abstract idea” test, and quoting from the *Flook* opinion, Justice Stevens observes: “At points, the opinion suggests that novelty is the clue. . . . But the fact that hedging is ‘long prevalent in our system of commerce,’ . . . cannot justify the Court's conclusion, as ‘the proper construction of § 101 . . . does not involve the familiar issue of novelty’ that arises under § 102.”

### *Justice Breyer's Concurrence*

In an apparent effort to clarify exactly what the various Justices agreed upon, Justice Breyer noted four points in his concurrence. First, Justice Breyer emphasized that the broad scope afforded to the language of § 101 is not without limit, specifically quoting the *Benson* decision: “In particular, the Court has long held that ‘[p]henomena of nature, though just discovered, mental processes, and abstract intellectual concepts are not patentable’ under § 101, since allowing

individuals to patent these fundamental principles would 'wholly pre-empt' the public's access to the 'basic tools of scientific and technological work.'" Second, Justice Breyer noted the importance of the machine-or-transformation test,

. . . while the machine-or-transformation is an "important example of how a court can determine patentability under § 101, . . . the Federal Circuit erred in this case by treating it as the *exclusive test*."

which he observed has "repeatedly helped the Court to determine" what may be properly patented. Third, while the machine-or-transformation is an "important example of how a court can determine patentability under § 101, . . . the Federal Circuit erred in this case by treating it as the *exclusive test*." (Emphasis in original.) Fourth, Justice Breyer went out of his way to deny any interpretation of the Court's holding that might suggest that patentable subject matter may be identified using the "useful, concrete and tangible result" test set forth in the Federal Circuit's *State Street* opinion.

### **What Happens Now?**

The Court has now spoken on an issue that has generated untold amounts of agitation, cogitation and speculation among those in the patent community. While it will likely

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take a number of years for lower courts (particularly the Federal Circuit) to flesh out the implications of the Court's opinion, a few observations may be worthy of consideration at this point.

From the viewpoint of the Federal Circuit, this decision falls in line with the Court's recent admonitions against bright-line rules<sup>4</sup> that replace or ignore statutory text and/or the Court's precedents. Those familiar with the 2007 *KSR* decision will recall that the Court admonished the Federal Circuit for its "motivation to combine" tests concerning the determination of obviousness, once again stating that the Federal Circuit had established a test that was contrary to the relevant statute (35 U.S.C. § 103) and the Court's precedents. In this case, by repudiating the exclusivity of the machine-or-transformation test while, at the same time, praising its utility as an "important and useful clue," the Court appears to approve of bright-line tests so long as they are firmly grounded in, and do not appear to surpass, the Court's or Congress's guidance. However, going forward, some observers question whether the Federal Circuit will have the desire to engage in further "line drawing."

In this vein, it is to be noted that Judge Michel (the author of the Federal Circuit's *In re Bilski* opinion) has recently retired and Judge Rader has taken his place as chief judge on that court. Given Judge Rader's approval of the "abstract idea" test in his dissent in the *In re Bilski* opinion, it may be reasonable to assume that the Federal Circuit will further explore the boundaries of what subject matter is or is not encompassed by the judicial exceptions. To the extent that Judge Rader would have held that *Bilski*'s claims were invalid as being drawn to an abstract idea, his analysis bears reconsideration going forward. Indeed, it appears evident that Justice Kennedy's opinion was inspired by the groundwork laid out in Judge Rader's dissent. With regard to the now-more-important-than-ever inquiry regarding what constitutes a nonpatentable abstract idea, Judge Rader's dissent offers only tantalizing hints and specific examples. For instance, Judge Rader states that the form of a claim may suggest its status as an abstract idea: "an abstract claim would appear in a form that is not even susceptible to examination against prior art under the traditional tests for patentability." Perhaps unfortunately, he pins his further analysis regarding what isn't an abstract idea on what now appears to be a dead end when attempting to identify patentable subject matter—the "useful, tangible, and concrete result" test clearly repudiated by a majority of the Court in the *Bilski* decision. For example, referring to the technology discussed by the Court in the *Lab. Corp. of America Holdings v. Metabolite Laboratories, Inc.* case, Judge Rader suggests that while the naturally occurring relationship between high homocysteine levels and folate and cobalamin deficiencies is not eligible for patenting, a



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“process for applying that relationship to achieve a useful, concrete, and tangible result—i.e., diagnosis of potentially fatal conditions in patients” cannot be considered abstract and would therefore be entitled to patent protection, assuming satisfaction of all other conditions for patentability.

Given that Judge Rader would appear to have additional work to do in defining the boundaries between patentable subject matter and unpatentable judicial exceptions, it remains for patent applicants to determine what subject matter they believe the Patent Office and courts will view favorably. The initial guidance provided by the Patent Office in its June 28, 2010 memorandum to patent examiners allows for the possibility that patentable subject matter may still be found even if the machine-or-transformation test is not satisfied:

Examiners should continue to examine patent applications for compliance with section 101 using the existing guidance concerning the machine-or-transformation test as a tool for determining whether the claimed invention is a process under section 101. If a claimed method meets the machine-or-transformation test, the method is likely patent-eligible under section 101 unless there is a clear indication that the method is directed to an abstract idea.

The last clause of the above-quoted guidance appears to suggest that, while the Patent Office doesn't think it likely, there is a small possibility that a claimed process may nevertheless be an abstract idea even though it satisfies the machine-or-transformation test. Addressing the opposite scenario, the guidance continues:

If a claimed method does not meet the machine-or-transformation test, the examiner should reject the claim under section 101 unless there is a clear indication that the method is not directed to an abstract idea. If a claim is rejected under section 101 on the basis that it is drawn to an abstract idea, the applicant then has the opportunity to explain why the claimed method is not drawn to an abstract idea.

On its face, this other-side-of-the-coin approach seems fair; if your claims don't meet the machine-or-transformation test, then there would appear to be a presumption that your claim is an abstract idea and you then need to prove that it isn't an abstract idea in order to be eligible for a patent. Aside from the obvious difficulty in proving a negative (i.e., that your claim *isn't* an abstract idea), this presumption that your claim is an abstract idea if the examiner thinks that it doesn't

meet the machine-or-transformation test would appear to violate the hierarchy established by the Court. That is, the Court has once again said that the only exceptions to the

An “important and useful clue” for showing that your claim isn't an abstract idea, according to the Court, is to show that it meets the machine-or-transformation test. However, the Court never states that *failure* to meet the machine-or-transformation test *necessarily implies* that a claim is an abstract idea.

broad scope of patent eligibility established by § 101 are the judicial exceptions, including abstract ideas. An “important and useful clue” for showing that your claim isn't an abstract idea, according to the Court, is to show that it meets the machine-or-transformation test. However, the Court never states that *failure* to meet the machine-or-transformation test *necessarily implies* that a claim is an abstract idea. Thus, any shifting of the burden of proof to the patentee on this basis would appear to be contrary to the hierarchy established by the Court.

Notwithstanding this apparent contradiction in the Patent Office's guidance, it would appear that the safest course of action for patent applicants going forward is to craft your claims in such a manner as to maximize their likelihood of meeting the machine-or-transformation test. In some instances, this may be achieved by resisting the temptation to draft your claims so broadly as to be totally devoid of any machine-like influence, particularly where experience indicates that in virtually all real-world applications, such a machine would almost certainly be included. For example, in the realm of software-based inventions, practitioners often point out that any processing accomplished via instructions executed by a processor could also be accomplished by appropriately configured logic gates, i.e., hardware. This may be theoretically true. However, a process claim that forgoes reciting a processing device in order to maintain sufficient breadth so as to encompass such theoretical implementations likely unnecessarily increases its probability of failing the machine-or-transformation test with precious little increase in the

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likelihood of catching a potential infringer, should the claim ever issue. Likewise, if it is possible to recite an eligible transformation without unduly limiting the scope of your claim, then it is likely worthwhile to do so.

What if your claims unfortunately do get caught in the murky waters of abstract ideas? How can one respond in a meaningful way? While the answer to these questions necessarily depends on the Patent Office's willingness to push this burden onto patent applicants, successful response strategies may center on the context in which the issue of abstractness is presented. For example, if, as in *Bilski*, a fact finder (or patent examiner) can frame the issue in terms that your claim is pre-empting an entire field of endeavor, then you are likely to lose your fight. Thus, it would be better to provide whatever evidence/argument you can to demonstrate either that your claimed subject matter is sufficiently narrow so as to avoid pre-emption, or the field in question is much broader than the scope of your claims thereby once again avoiding the pre-emption implication. As the courts further develop case law in this regard, further response strategies may present themselves in the coming months and years. ■

<sup>1</sup> **35 U.S.C. 101 Inventions patentable.** Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title.

<sup>2</sup> I.e., the Freeman-Walter-Abele test, where it is determined whether the claim recites an "algorithm" and then determined whether that algorithm is "applied in any manner to physical elements or process steps"); the "useful, concrete and tangible result" test established in its *State Street* opinion; the "technological arts" test; and any categorical exclusions (e.g., "business methods" or "software"). This repudiation by the Federal Circuit of "categorical exclusions" in favor of the "bright-line" machine-or-transformation test is ironic in light of the U.S. Supreme Court's later characterization of the machine-or-transformation test as a "categorical limitation on 'process' patents under § 101."

<sup>3</sup> **35 U.S.C. 273 Defense to infringement based on earlier inventor.** (a) DEFINITIONS.— For purposes of this section . . . the term "method" means a method of doing or conducting business . . . (b) DEFENSE TO INFRINGEMENT.— (1) IN GENERAL.— It shall be a defense to an action for infringement . . . with respect to any subject matter that would otherwise infringe one or more claims for a method in the patent being asserted against a person, if such person had, acting in good faith, actually reduced the subject matter to practice at least 1 year before the effective filing date of such patent, and commercially used the subject matter before the effective filing date of such patent. . . . (3) LIMITATIONS AND QUALIFICATIONS OF DEFENSE.— The defense to infringement under this section is subject to the following: (A) PATENT.— A person may not assert the defense under this section unless the invention for which the defense is asserted is for a method.

<sup>4</sup> In a seminar shortly after issuance of the Court's *Bilski* opinion (AIPLA webinar entitled "The Supreme Court's Decision in *Bilski* and its Impact on IP Law," July 1, 2010), now-retired Judge Michel explained that the machine-or-transformation test as expressed by the Federal Circuit was precisely designed to be "broadly usable," noting that the "abstract idea" test relied upon by the Court will be difficult for courts to administer, not to mention the Patent Office, patent applicants and their representatives.

### Practice Tips:

When drafting your claims, give serious consideration to whether or not you can draft your claims in a manner that satisfies the machine-or-transformation test. While you may be justified in arguing that your claimed invention falls into that seemingly narrow region of subject matter that neither satisfies the machine-or-transformation test nor encompasses an impermissible abstract idea, the lack of developed case law on this point would appear to make this task extremely difficult, at best.

When drafting your patent application, try to place your claimed subject matter not only in the narrower context in which it completely solves the motivating problem, but also in a broader context in which the claimed solution is but one of a variety of potential solutions (perhaps having its own advantages relative to the other solutions). In this manner, you may be better positioned when prosecuting the application before the Patent Office (or defending it from opposing counsel during litigation) to argue that your claims are not pre-emptive in the sense of an impermissible abstract idea.

Justice Kennedy's opinion appears to suffer, as noted in Justice Stevens's dissent, from a shortcoming often found when asserting that claimed subject matter is little more than an abstract idea: the merging of subject-matter eligibility under § 101 with the novelty requirements under § 102. For example, Justice Kennedy's quotation of Judge Rader that "[h]edging is a fundamental economic practice *long prevalent* in our system of commerce and taught in any *introductory finance class*" seems to predicate the abstractness of the concept of hedging on the fact that it has been well known for a long time. Ignoring for the moment whether *Bilski*'s claims actually were pre-emptive of the entire concept of "hedging" (it would appear that they were not), these arguments seem to take § 102 prior art that has been around so long as to be considered a "fundamental" part of the public's storehouse of knowledge and transform it into a purer, higher form of an "abstract idea." To the extent that such tendencies are spotted in assertions of abstractness, the applicant/patentee may be well advised to argue against such conflation of the statutory requirements.

## Case Law Review

### **PATENT APPLICANTS SHOULD FULLY DESCRIBE THEIR INVENTIONS IN ORIGINALLY FILED APPLICATIONS**

#### ***Ariad Pharm. Inc. v. Eli Lilly & Co.***

(Fed. Cir. 2010)

Generally speaking, an inventor may receive a patent for an invention under U.S. patent law if it is directed to eligible subject matter and novel and is nonobvious over the prior art. In addition, a patent application must contain an adequate “descriptiveness” of the invention under the first paragraph of 35 U.S.C. § 112 for issuance of a patent in accordance with the *quid pro quo* policy objective of the patent system of encouraging disclosure of inventions in return for protection. 35 U.S.C. § 112, ¶ 1 reads as follows:

The specification shall contain a written description of the invention, and of the manner and process of making and using it, in such full, clear, concise, and exact terms as to enable any person skilled in the art to which it pertains, or with which it is most nearly connected, to make and use the same, and shall set forth the best mode contemplated by the inventor of carrying out his invention.

Over the years, commentators and courts have debated whether this statutory provision includes a separate “written description” requirement in addition to the “enablement” and “best mode” requirements. The enablement requirement refers to the language requiring that the specification of a patent application provide sufficient disclosure to enable “any person skilled in the art to which it pertains, or with which it is most nearly connected, to make and use the [invention] . . .” However, it has been considered less clear whether the language of 35 U.S.C. § 112, ¶ 1 further recites that the specification contain “a written description of the invention” as a requirement that is separate and distinct from the aforementioned enablement requirement, and if so, what is the scope and purpose of such a “written description” requirement? These are the exact issues addressed by the recent Federal Circuit decision in *Ariad Pharmaceuticals Inc. v. Eli Lilly & Co.*, 598 F.3d 1336, 94 U.S.P.Q.2d 1161 (Fed. Cir. 2010), discussed *infra*.

As far back as 1967, the predecessor court of the Federal Circuit recognized the existence of a written description

requirement separate from enablement. In *In re Ruschig*, 379 F.2d 990, 154 U.S.P.Q. 118 (CCPA 1967), the court held that amendment to claim a specific compound was not supported by the original application providing a broader disclosure because there were insufficient “blaze marks” in the application to lead to the specific compound claimed. The court further stated “the question is not whether [a person] would be so enabled but whether the specification discloses the compound to him, specifically, as something appellants actually invented.” The Federal Circuit continued this separation of written description from enablement in subsequent cases. For example, in *Vas-Cath Inc. v. Mahurkar*, 935 F.2d 1555, 19 U.S.P.Q.2d 1111 (Fed. Cir. 1991), the court acknowledged that “it is possible for a specification to *enable* the practice of an invention as broadly as it is claimed, and still not *describe* that invention.” Thus, the “written description” language of 35 U.S.C. § 112, ¶ 1 developed as a requirement that an applicant adequately describe the invention *itself* (i.e., showing that the applicant had “possession” of the subject matter claimed), which was severable and distinct from the requirement of enabling a person skilled in the art how to make and use it.

Nevertheless, despite consistent application by courts of a separate written description requirement, challenges and questions continued based on the legislative history and earlier court precedent. But, application of the written description requirement in cases was usually limited to circumstances of “policing priority” with regard to whether elements or limitations added to claims were supported by an earlier original or parent filing. However, in *The Regents of the University of California v. Eli Lilly*, 119 F.3d 1559, 43 U.S.P.Q.2d 1398 (Fed. Cir. 1997), the court applied the written description requirement to originally filed claims. The court in *Eli Lilly* held that original claims written broadly to cover cDNAs encoding vertebrate insulin were not supported by the disclosure of only the rat insulin sequence. The court concluded that a sufficient description of a genus may be achieved by means of a recitation of a *representative number of species* falling within the scope of the genus or by a recitation of structural features common to members of the genus that constitute a substantial portion of the genus. The court in *Enzo Biochem, Inc. v. Gen-Probe Inc.*, 323 F.3d 956 (Fed. Cir. 2002), reiterated that “the written description requirement is satisfied by the patentee’s disclosure of ‘such descriptive means as words, structures, figures, diagrams, formulas, etc., that fully set forth the claimed invention’ but held that a deposit of biological material sufficiently supported the claims. However, following *Eli Lilly*, questions lingered

with regard to not only the existence of a separate written description requirement but its proper role and scope.

In the *Ariad Pharmaceuticals Inc. v. Eli Lilly & Co.* decision this year, the court sought to address these issues

The court basically reaffirmed its position taken in prior cases that there is indeed a separate “written description” requirement that may be applied to the subject matter of original claims. Given that this opinion was made *en banc* by the Federal Circuit, the *Ariad* decision is now the definitive statement on written description law jurisprudence unless the Supreme Court decides to intervene and grant *certiorari*.

and put to rest any lingering questions about the legitimacy and scope of the written description requirement. The court basically reaffirmed its position taken in prior cases that there is indeed a separate “written description” requirement that may be applied to the subject matter of original claims. Given that this opinion was made *en banc* by the Federal Circuit, the *Ariad* decision is now the definitive statement on written description law jurisprudence unless the Supreme Court decides to intervene and grant *certiorari*.

In this case, Ariad Pharmaceuticals, Inc. (Ariad) brought suit against Eli Lilly & Co. (Lilly) alleging infringement of U.S. Patent No. 6,410,516 (the ‘516 patent), and after trial, a jury found the claims valid and the defendant liable for infringement. However, an earlier panel of the Federal Circuit reversed the District Court’s denial of Lilly’s judgment as a matter of law (JMOL) and held the claims of the ‘516 patent invalid for lack of written description. On rehearing *en banc*, the Federal Circuit reaffirmed its holding of invalidity for lack of written description. In *Ariad*, the claims of the ‘516 patent related generally to methods for reducing the effects and binding of NF-κB to recognition sites in the nucleus. The specification of the ‘516 patent provided little more than a hypothesis for three types of molecules with the potential to reduce NF-κB activity in cells: decoy

molecules, dominantly interfering molecules, and specific inhibitors. The court found these disclosures as merely providing genus claims encompassing the use of any and all substances that achieve a desired result, and thus insufficient to provide a written description of the invention.

In its analysis, the court in *Ariad* first provided its statutory construction of the relevant language of 35 U.S.C. § 112, ¶ 1. The court entertained the different grammatical interpretations forwarded by each of the parties, but ultimately sided with Lilly’s parallelism argument in finding that a correct reading required that (1) “The specification shall contain a written description of the invention,” and (2) “[The specification shall contain a written description] . . . of the manner and process of making and using it, in such full, clear, concise, and exact terms as to enable any person skilled in the art . . . to make and use the same.” The court rejected Ariad’s argument that the “written description of the invention” exists only to “identify” the claimed invention that must then be enabled. The court further stated that Ariad’s reading of the statute would render portions of the statutory language unnecessary, thus violating a rule of statutory construction, and that Congress would have phrased the language of the statute differently if its intent was in accord with Ariad’s view.

The court in *Ariad* continued with a review of case law precedent. The court first noted that Supreme Court cases have acknowledged the existence of a separate written description requirement, and that upholding the separate requirement is supported by a desire to fulfill the interests of *stare decisis* and not disrupt settled expectations. The court

The court further stated that “while it is true that original claims are part of the original specification, that truism fails to address the question whether original claim language necessarily discloses the subject matter that it claims.”

then embarked on a review of its own opinions on written description over the years. The court first dismissed Ariad’s arguments that the separate written description requirement was created by a misreading of the *In re Ruschig* decision and that pre-*Ruschig* decisions merely tested whether the specification identified the invention to be enabled.



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In addressing whether the written description applies to original claims, the court again dismissed Ariad's argument that the prior *Eli Lilly* decision had improperly extended written description beyond policing priority. The court stated that there is no principled basis for such a restricted application and that Congress did not so limit the statute. The court further stated that "while it is true that original claims are part of the original specification, that truism fails to address the question whether original claim language necessarily discloses the subject matter that it claims." The court then repeated the basic holding in *Eli Lilly* that claims defining the boundaries of a vast genus of chemical compounds, especially when defined in functional terms, may simply be a claim of a desired or useful result rather than a definition of what achieves the result. The court continued "a sufficient description of a genus instead

However, the court stated its view that the term "possession" is not enlightening and incorrectly implies that a finding of written description may be supported by later showing a previously undisclosed "possession."

requires the disclosure of either a representative number of species falling within the scope of the genus or structural features common to the members of the genus so that one of skill in the art can 'visualize or recognize' the members of the genus." The court did caution, however, that functional language can meet the written description requirement when the art has an established correlation between structure and function. The court then reaffirmed its similar prior holdings in *Fiers v. Revel*, 984 F.2d 1164, 25 U.S.P.Q.2d 1601 (Fed. Cir. 1993) (original claim language to "a DNA coding for interferon activity" failed to provide an adequate written description as it amounted to no more than a "wish" or "plan" for obtaining the claimed DNA rather than a description of the DNA itself), and *Enzo Biochem, Inc. v. Gen-Probe Inc.*, 323 F.3d 956, 970 (Fed. Cir. 2002) (generic claim language appearing *in ipsius verbis* in the original specification does not satisfy the written description requirement if it fails to support the scope of the genus claimed).

Following this review, the court then proceeded to restate its position on written description law. The court

acknowledged that prior decisions have held that "the test for sufficiency is whether the disclosure of the application relied upon reasonably conveys to those skilled in the art that the inventor had *possession* of the claimed subject matter as of the filing date." However, the court stated its view that the term "possession" is not enlightening and incorrectly implies that a finding of written description may be supported by later showing a previously undisclosed "possession." Therefore, the court reformulated the test as "possession *as shown in the disclosure*" to emphasize that only "possession" as evidenced by the specification itself will suffice. In contrast to enablement, the question of adequate written description is a question of fact that will vary depending on the context. "The level of detail required to satisfy the written description requirement varies depending on the nature and scope of the claims and on the complexity and predictability of the relevant technology. For generic claims, we have set forth a number of factors for evaluating the adequacy of the disclosure, including [1] the existing knowledge in the particular field, [2] the extent and content of the prior art, [3] the maturity of the science or technology, and [4] the predictability of the aspect at issue."

It is important to note that an adequate written description is measured by one of ordinary skill in the relevant art reading the specification, drawings and claims. Therefore, an adequate written description for a particular element or feature may be found in circumstances where the particular feature may be supplied by the knowledge and understanding of one skilled in the art. While the question of sufficient written description is decided on the facts of a given case, the court did provide a few basic principles that hold true across all cases: "[1] the written description requirement does not demand either examples or an actual reduction to practice; [2] a constructive reduction to practice that in a definite way identifies the claimed invention can satisfy the written description requirement. Conversely, we have repeatedly stated that [3] actual 'possession' or reduction to practice outside of the specification is not enough. Rather, . . . it is the specification itself that must demonstrate possession. And [4] while the description requirement does not demand any particular form of disclosure, or that the specification recite the claimed invention in *haec verba*, a description that merely renders the invention obvious does not satisfy the requirement."

Chemical and biological inventions are commonly challenged on the basis of the written description and enablement requirements. However, the court in *Ariad* rejected the notion that the written description requirement

is a “super enablement” standard applied to chemical and biotechnology inventions. Instead, the court insisted that the same written description standard is applied in all cases. For example, the court stated that there is not a heightened requirement to provide an exact recitation of all biological sequences within the entire genus of claimed genetic material. Rather, the disclosure of sufficient structural features common to members of the genus has always been permitted. In other words, the particularly stringent application of the written description requirement in chemical and biotechnology cases relates to the greater unpredictability in those fields rather than a different standard or application of the law *per se* in those cases. In fact, the *Ariad* court cited *Lizard Tech, Inc. v. Earth Res. Mapping, Inc.*, 424 F.3d 1052, 77 U.S.P.Q.2d 1161 (Fed. Cir. 2005) to show that the written description requirement is not always applied in chemical and biological inventions.

Finally, the court rejected *Ariad*’s argument that the written description requirement is met because the claims are directed to methods and not the molecules themselves. The court cited *University of Rochester v. G.D. Searles & Co., Inc.*, 358 F.3d 916, 69 U.S.P.Q.2d 1886 (Fed. Cir. 2004), holding that method claims were invalid for lacking an adequate written description because the specification did not describe any specific compound capable of performing the claimed method, and a skilled artisan would not be able to identify any such compound based on the specification’s functional description. Thus, the written description requirement applies not only to composition claims, but also to method claims that necessarily depend on materials or compositions needed to carry out the claimed method. In other words, some way of performing the claimed method must be described if not apparent to one skilled in the art, which in *Ariad* was dependent on the identity of the molecules needed to carry the method claims into effect.

Several long-standing principles relating to patent and claim drafting are reaffirmed by the court’s recent *Ariad* decision. Best practices dictate that potentially claimed elements and features should be described to the fullest extent possible in the specification as filed to ensure adequate written description and enablement support that will withstand challenges during prosecution and litigation. Although the court insisted that no different standard for written description is applied in chemical and biological cases, a review of court decisions will impress the fact that the written description requirement is applied with much greater frequency and scrutiny in chemical and biological

cases due to the inherent unpredictability and uncertainty in these fields. Therefore, when drafting applications, particularly for chemical and biological inventions, it is important that a full description of the elements and features of the claims, including how to make and use them, be provided in the specification with sufficient structural detail, including as many embodiments or examples as practically possible, to ensure that these requirements are met and that the claims are not later found invalid or rejected because the full scope of the invention is not adequately described or enabled. Indeed, the quality and depth of patent protection for an invention often depends on how well the invention is described and how much information is disclosed in the originally filed application. Particularly when an invention is directed to a chemical or biological composition of matter or a method relying on such a composition to carry out its steps, the specification should include a representative number of species or sufficient structural details including chemical formulas, biological sequences, etc., of those compositions forming a part of the invention in a manner sufficient to describe and enable the full scope of the claims in the eyes of a skilled artisan. ■

### **Practice Tip:**

When filing a patent application, especially in the biotechnological and chemical arts, it is important to fully describe the invention in the specification and claims including any evidence, ranges or quantitative criteria that will define the boundaries and scope of the invention in relation to the prior art. Failure to fully describe the invention at the time of filing an application may render any patent granted therefrom vulnerable to invalidity challenges during later enforcement under Sec. 112 of the patent statute.

### **ARGUING OBVIOUSNESS AFTER KSR: ARE WE COMING FULL CIRCLE?**

*In re Ravi Vaidyanathan*

(Fed. Cir. 2010)

To receive a patent for an invention under U.S. patent law, the invention must be both novel and nonobvious over the prior art. Novelty under 35 U.S.C. § 102 can be established when not all of the elements and features of an invention are expressly or inherently provided in a single prior art

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reference. However, the obviousness of an invention has a broader reach, which may be established in view of multiple prior art references. 35 U.S.C. § 103(a) defines obviousness as follows:

A patent may not be obtained though the invention is not identically disclosed or described as set forth in section 102 of [Title 35], if the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains. Patentability shall not be negated by the manner in which the invention was made.

Thus, the obviousness inquiry first determines the differences between the invention and the prior art and then asks whether those differences would have been obvious to a person having ordinary skill in the art. Such person of ordinary skill provides the objective viewpoint from which the obviousness determination is made. Importantly, however, the obviousness inquiry is further determined from the viewpoint of such ordinary skilled person *at the time the invention was made*. In general, the invention is initially presumed to have been “made” on the filing date of the application; however, an earlier date of invention may be established in some circumstances. Therefore, only patents or printed publications issued or published *before* the filing date (i.e., prior art) may be considered and used to invalidate a patent during litigation or serve as a basis for an obviousness rejection during prosecution of a patent application (with the caveat that published patent applications may be used as prior art before their date of issuance).

One of the greatest challenges facing courts during litigation and examiners during prosecution when analyzing the obviousness of an invention is avoiding hindsight bias in view of the prior art. Hindsight bias refers to the tendency to improperly view the prior art in light of the invention once being made aware of the invention. In other words, it is very difficult to go back in time and stand in the shoes of a person of ordinary skill in the art looking out prospectively into the future in view of the prior art at the time the invention was “made” to determine the obviousness of the invention while simultaneously avoiding any influence that may arise from knowledge of the invention in evaluating the teachings of the prior art references (i.e., avoiding the use of the patent applicant’s disclosure as a “roadmap” in piecing together the prior art references). Studies have shown that

hindsight bias exerts a strong influence on the obviousness analysis that tends to increase the likelihood of finding an invention obvious. See, e.g., *AIPLA Quarterly Journal*, Vol. 37, No. 2: pp. 227–256 (Spring 2009). Basically, inventions tend to appear more obvious in view of the prior art once the invention is known.

To protect against such improper hindsight reasoning, the Federal Circuit devised a test for determining the obviousness of an invention over the prior art, which came to be known as the teaching-suggestion-motivation (TSM) test.

In reviewing numerous patent appeal cases over many years, the Court of Appeals for the Federal Circuit became very aware of the strong biasing effect of hindsight reasoning in influencing the obviousness analysis. To protect against such improper hindsight reasoning, the Federal Circuit devised a test for determining the obviousness of an invention over the prior art, which came to be known as the teaching-suggestion-motivation (TSM) test. Under the TSM test, a patent claim was generally proved obvious only if some motivation or suggestion to combine or modify the prior art teachings can be found either in the prior art itself, the nature of the problem to be solved, or the knowledge of a person having ordinary skill in the art. As a result, the TSM test was effective in lessening hindsight bias by forcing the production of objective evidence to show why an invention should be considered obvious in view of the prior art.

However, many objected to the application of the TSM test as being overly rigid and leading to the issuance of too many “junk patents” due to the difficulty of showing evidence during prosecution to prove suggestion or motivation to combine or modify the teachings of the prior art specifically in the manner claimed. In *KSR Intl. Co. v. Teleflex Inc.*, 550 U.S. 398, 82 U.S.P.Q.2d 1385 (2007), the Supreme Court rejected this perceived mechanical application of the TSM test in reversing the Federal Circuit in that case. Although the Court recognized that there is not necessarily an inconsistency between the idea underlying the TSM test and a proper obviousness inquiry and further that the TSM

test may provide “helpful insight,” the Court rendered the TSM test practically ineffectual by not requiring it. The Court reasoned that “[t]he obviousness analysis cannot be confined by a formalistic conception of the words teaching, suggestion, and motivation, or by overemphasis on the importance of published articles and the explicit content of issued patents. . . . In many fields it may be that there is little discussion of obvious techniques or combinations, and it often may be the case that market demand, rather than scientific literature, will drive design trends. Granting patent protection to advances that would occur in the ordinary course without real innovation retards progress and may . . . deprive prior inventions of their value and utility.”

The Court in *KSR* memorably stated that “[a] person of ordinary skill is also a person of ordinary creativity, not an automaton.” The Court reasoned that courts and patent examiners may look to any need or problem to provide a reason for combining prior art elements and that common sense teaches that familiar items have uses beyond their primary purposes. The Court cautioned that “[w]hen there is a design need or market pressure to solve a problem and there are a finite number of identified, predictable solutions, a person of ordinary skill has good reason to pursue the known options within his or her technical grasp [—i.e., they are ‘obvious to try.’]. If this leads to the anticipated success, it is likely the product not of innovation but of ordinary skill and common sense.” The Court continued, “The combination of familiar elements according to known methods is likely to be obvious when it does no more than yield predictable results.” Basically, the Supreme Court in *KSR* returned the obviousness analysis to a totality of the circumstances test based on underlying factual inquiries that were previously articulated in *Graham v. John Deere Co. of Kansas City*, 383 U.S. 1, 148 U.S.P.Q. 459 (1966): (1) the scope and content of the prior art; (2) the differences between the prior art and the claims at issue; (3) the level of ordinary skill in the pertinent art; and (4) evidence of “secondary considerations,” such as commercial success, long felt but unsolved needs, failure of others, etc.

In the aftermath of *KSR*, however, many expressed concern that the removal of the TSM test without an alternative form of confinement would open the obviousness analysis to the influence of hindsight in crafting *ex post* reasoning to combine or modify prior art elements. The concern was that allowing consideration of things like market demand, design trends, common sense, ordinary creativity, etc., would make the obviousness inquiry unduly permissive and open and would provide no basis to confine

or control the inquiry against the biasing effect of hindsight reasoning. A court or patent examiner could search for prior art references supplying the individual elements and features of the invention and then simply craft in retrospect a “token” motivation or reason for why a person of ordinary skill would modify or combine the teachings of the prior art in the manner claimed. These concerns were not alleviated by the Court in *KSR* only briefly cautioning fact-finders against the pitfalls of *ex post* hindsight reasoning before continuing to explain the shortcomings of the TSM test.

Courts since *KSR* have scrambled  
 to fashion an alternative test or  
 logical basis to properly confine  
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 terms to combat subjective *ex post*  
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 or modify the teachings of the prior  
 art.

Since *KSR*, many patent practitioners and others believe that these fears have been realized and that, particularly during prosecution, patent examiners too often rely on token or subjective motivations or reasons for a person of ordinary skill to combine or modify the teachings of the prior art in rejecting claims as obvious without providing objective evidence or reasoning to support the conclusion. Even in *KSR*, the Court acknowledged that the reasoning should be made explicit and that “[r]ejections on obviousness grounds cannot be sustained by mere conclusory statements; instead, there must be some articulated reasoning with some rational underpinning to support the legal conclusion of obviousness.” Courts since *KSR* have scrambled to fashion an alternative test or logical basis to properly confine the obviousness inquiry in practical terms to combat subjective *ex post* reasoning and the use of conveniently whimsical or token bases to combine or modify the teachings of the prior art. For example, some courts have pointed to the language affirmed in *KSR* that “there must be some articulated reasoning with some rational underpinning to support the legal conclusion of obviousness” and that generalized conclusions without explicit explanation may



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not suffice. See, e.g., *Innogenetics, N.V. v. Abbott Laboratories*, 512 F.3d 1363, 85 U.S.P.Q.2d 1641 (Fed. Cir. 2006).

Recently, in *In re Vaidyanathan* (Fed. Cir. 2010), a Federal Circuit panel in a nonprecedential opinion vacated and remanded the decision of the Board of Patent Appeals and Interferences (the “Board”) holding that the claims of a patent application were obvious in view of the art of record. The claimed invention of the subject patent application (U.S. Patent App. Serial No. 10/259,203) related generally to a method for guiding and controlling munitions at the “endgame” stage of flight when the munition is very close to its target by using a neural network that provides high-level commands to an autopilot that directs the actual movement of the munition. The Board had affirmed the Examiner’s rejection of claims as obvious in view of U.S. Patent No. 6,473,747 (Biggers) and U.S. Patent No. 5,435,503 (Johnson).

On appeal to the Federal Circuit, the Applicant argued that the rejection of claims was based on a misunderstanding of the Biggers reference and that neither the Examiner nor the Board had made sufficient factual findings or adequately explained their reasoning. Thus, the Applicant argued that there was a lack of substantial evidence to support the Board’s conclusion of obviousness. According to the Applicant, claims of the subject ’203 application were directed to a neural network that sent commands to an autopilot to control a munition at the end stage of flight, whereas Biggers only taught using a neural network at the intermediate stage of flight without necessarily teaching control of an autopilot. The Solicitor on behalf of the Patent and Trademark Office (PTO) argued instead that commands from the neural network in Biggers were sent to an autopilot to control flight of a munition. According to the Solicitor, although not described explicitly in the specification, a person of ordinary skill would have understood box 44 of Fig. 3 in Biggers as providing implicit support for the commands being sent from the neural network to the autopilot. The Solicitor further argued that the “zero A to A” command in Fig. 4 of Biggers is sent from the neural network and that traditional autopilots were known to function in this way as evidenced by the secondary Johnson reference.

The Applicant countered that Biggers teaches three independent and mutually exclusive systems for guiding flight of the munition at different stages of flight: an autopilot, a neural network, and a terminal guidance system. The Applicant further argued that the PTO bears the initial burden of showing obviousness and there have been three

conflicting views offered by the PTO: (1) the Examiner’s Answer stated that the neural network controls the guidance system, (2) the Board disagreed but stated that Fig. 3 should be reasonably understood as the autopilot, and (3) the Solicitor on appeal instead relies on autopilot functions being well known and further that the command sent to the autopilot in Fig. 4 is from the neural network.

The Federal Circuit in its opinion agreed with the Applicant that the PTO has offered divergent and shifting viewpoints relating to the question of patentability and particularly that, in contrast to the claims and specification of the subject ’203 application, the neural network appeared to relinquish control of the munition to a guidance system before striking the target. Although the court stopped short of concluding that the PTO was wrong in its conclusion, the court vacated and remanded the case because in its view the Board had not persuasively and explicitly explained its reasoning or provided adequate findings of fact to support its prima facie conclusion of obviousness. Further, the PTO’s shifting positions and factual discrepancies cast serious doubt on its reasoning, which impeached the normal deference owed to

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agency decisions. The Applicant also objected to the absence of explicit findings with regard to the level of ordinary skill, but the court dismissed these concerns and held that the Board is not required to make express findings on the level of ordinary skill but nevertheless must provide sufficient explanation to support the obviousness determination as a whole.

In reaching its decision, the court stated that “[o]bviousness is determined as a matter of foresight, not hindsight. *KSR* did not free the PTO’s examination process from explaining its reasoning. In making an obviousness rejection, the examiner should not rely on conclusory statements that a particular feature of the invention would have been obvious or was well known. Instead, the examiner should elaborate, discussing the evidence or reasoning that leads the examiner to such a conclusion. Generally, the examiner cites prior art references to demonstrate the state of knowledge.” To support its reasoning in rejecting claims for want of novelty or obviousness, the examiner must cite the best references at his or her command. See 37 C.F.R. § 1.104(c)(2); MPEP § 706.02. Rule 1.104(c)(2) further states that “[w]hen a reference is complex or shows or describes inventions other than that claimed by the applicant, the particular part relied on must be designated as nearly as practicable. The pertinence of each reference, if not apparent, must be clearly explained and each rejected claim specified.” On the other hand, “[i]f it is not possible for the examiner to provide this type of information, the examiner might choose instead to provide an affidavit [according to 37 C.F.R. § 1.104(d)(2)] detailing the examiner’s own personal knowledge (as a person approximating one of ordinary skill in the art) of the technology in question.”

Although the court acknowledged that, in view of *KSR*, the cited references themselves “need not in every case provide a ‘specific hint or suggestion’ of the alteration needed to arrive at the claimed invention” and that “the examiner’s analysis may include recourse to logic, judgment, and ‘common sense’ available to a person of ordinary skill that do not necessarily require explication in any reference or expert opinion,” the examiner should at least explain “the logic or common sense that leads the examiner to believe the claim would have been obvious. Anything less than this results in a record that is insulated from meaningful appellate review. If the examiner is able to render a claim obvious simply by saying it is so, neither the Board nor this court is capable of reviewing that determination.” The court further reiterated that “rejections on obviousness grounds cannot be sustained by mere conclusory statements; instead, there must be some articulated reasoning with some rational underpinning to support the legal conclusion of obviousness.” “If there is neither record evidence nor detailed examiner reasoning, the Board should not conclude that [the Applicant’s] claims are obvious.”

Although the *In re Vaidyanathan* decision was nonprecedential and may not be cited on appeal, the

decision provides an indication of the direction the Federal Circuit may be taking. Even though recourse may be made to additional motivations and reasons outside of the cited references, such as common sense, ordinary creativity, and the like, the obviousness inquiry must still be anchored in adequate findings of fact and sufficiently explicit reasoning to prove that a person having ordinary skill in the art would view the invention as being obvious over the prior art.

In reviewing the progression of case law from the rejection of the TSM test in *KSR* to the current leanings of the Federal Circuit in requiring an adequate showing of facts and reasoning, one must wonder how much meaningful change there has been to the law of obviousness after the *KSR* decision. Indeed, while the obviousness inquiry following *KSR* may be more open to additional sources of reasons or motivations to combine or modify the teachings of the prior art, one may conclude that, in large part, the showing under the TSM test is simply being replaced with a similar requirement to adequately show evidence supported by facts and explicit reasoning to support the prima facie conclusion of obviousness. Therefore, while arguments based on a lack of suggestion or motivation to combine or modify prior art references are not likely to receive much weight in light of *KSR* during prosecution of a patent application, patent practitioners should insist that Examiners provide factual findings and explicit reasoning to support their legal conclusion of obviousness. Practitioners should further cite 37 C.F.R. § 1.104(c)(2) to demonstrate the Examiner’s duty to provide the best prior art and articulate the basis of rejection, and, in some cases, demand an affidavit from the Examiner under 37 C.F.R. § 1.104(d)(2) to support any unsubstantiated conclusions. Although such arguments may not alter the course of prosecution before the Examiner, they may be found persuasive on appeal. ■

### **Practice Tip:**

When dealing with an obviousness rejection during prosecution, demand that the Examiner provide articulated reasoning and basis for making the rejection. If the Examiner appears to be relying on their own knowledge or unsubstantiated conclusions, demand that the Examiner provide an affidavit in support. Such arguments and demands may influence prosecution and be especially effective on appeal.

### INTERNET MERCHANTS OWE A GREATER DUTY OF CARE TO THEIR EUROPEAN CLIENTS

eBay was founded in 1995 by a French-born Iranian computer genius, Mr. Pierre Omidyar. On eBay, people and businesses trade a broad variety of goods. eBay is a publicly traded corporation on NASDAQ with revenues of over \$8.5 billion in 2008. eBay was launched in France late in 2000 several years after the initial launch in the United States. A majority of the sales on this platform are conducted using a set-time auction format, and a small number of sales are done via a “Buy It Now” system of instant buy at fixed price from virtual stores.

For some, a site like eBay is a legitimate online store, taking an active role in commercial transactions, offering online “floor space” where goods from different sources are sold after indexing and supply control. For others, eBay is a computer interface used by owners of goods, to reach buyers. A transactional fee is paid instead of a one time payment for the software. The difference in point of view is key to a recent split in decisions across the Atlantic.

#### *Louis Vuitton v. eBay [France]*

In 2004, luxury brands Dior, Kenzo, Givenchy, Guerlain, Christian Dior Couture, and Louis Vuitton Malletier united against eBay in France and filed a suit in Paris for trademark infringement and unfair trade practice. The owners of these famous marks argued that the goods sold by eBay were often of questionable origin, and that most high-end products were, in fact, counterfeit goods. These retailers argued that eBay knows that a large portion of the goods are not legitimate, benefits from these sales, and has a duty much like any store owner to actively monitor goods known to be suspect.

On June 30, 2008, the Tribunal de Commerce of Paris delivered a series of decisions sanctioning eBay and awarding these brands over 40 million Euros. Louis Vuitton received the lion’s share by collecting over 8 million euros in damages, 10 million euros in punitive damages, and 1 million euros in reparation to moral prejudice. The court ordered eBay to publish the judgment in three nationwide newspapers, and display for three consecutive weeks the judgment on the home page of eBay.fr in both French and English. Finally, the court awarded attorney fees and costs.

In a very harsh opinion, the Court noted that eBay cannot be perceived simply as an Internet service provider or a simple computer platform used by sellers where buyers are left on their own. Much like the famous auction house Hotel

Drouot located in Paris, an online auction house has a civil responsibility under French Law for the goods it sells. The court stated that resellers must require that frequent suppliers be registered with the commerce and trade ministry, these sellers must be listed on the union trade charters, and behaviors of sellers should be monitored to ensure only legitimate goods are sold. The tribunal put the onus on eBay to enforce adequate measures to prevent illicit goods from entering the market. For example, sellers could be asked to provide receipts of purchase or even certificates of authenticity. eBay could also be made to notify customers when the origin of a good appears doubtful.

As a result of this decision, on the website eBay.fr, a notice is now prominently displayed below the eBay search box that reads, “Counterfeit goods are a plague. Let’s stop it! To know more...”).



The link contains information on how to report a counterfeit product, very clear statements that eBay opposes illicit conduct, and a guarantee of up to 1,000 euros if the good purchased turns out to be counterfeit. eBay now proactively searches for counterfeits, and tries to eliminate them from the auction list. An appeal of these judgments is pending.

#### *Tiffany v. eBay [New York, USA]*

In stark contrast, on this side of the Atlantic, the Jeweler Tiffany sued eBay, Inc. in the Southern District of New York (04 Civ. 4607 (RJS)). Tiffany alleged that thousands of counterfeit silver jewelry items were sold on eBay’s website from 2003 to 2006 in violation of the law. Tiffany argued that eBay was liable for direct and contributory trademark infringement.

Judge Richard J. Sullivan ruled that eBay’s use of Tiffany’s trademarks, even when associated with counterfeited goods, is a protected fair use and that no infringement occurred. The court reminded Tiffany that the standard for liability was not a reasonable anticipation of possible infringement, but rather if eBay continued to supply its services to sellers when it knew or had reason to know of infringement by those sellers.

In the United States, the burden is placed directly on Tiffany to warn eBay of possible infringing uses. Evidence was introduced to show that each time eBay was notified, it promptly and preemptively removed listings. The court concluded: “Tiffany must ultimately bear the burden of protecting its trademark. Policymakers may yet decide that the law as it stands is inadequate to protect the rights of owners in light of the increasing scope of Internet commerce and the concomitant rise in potential trademark infringement. Nevertheless, under the law as it currently stands, it does not matter whether eBay or Tiffany could more efficiently bear the burden of policing the eBay website.” *Tiffany v. eBay*, 576 F. Supp. 2d 463 (S. D. N.Y., 2008).

The court concluded that Tiffany had failed to demonstrate that eBay was supplying its services to individuals *who it knows or had reason to know* were selling counterfeit Tiffany goods. The court did make a finding that “eBay appears to concede that it knew as a general matter that counterfeit Tiffany products were listed and sold through its website,” but this general knowledge was not sufficient to trigger liability.

On April 1, 2010, the Court of Appeals for the Second Circuit affirmed the claims for trademark infringement. *Tiffany v. eBay*, 08-3947-cv (2nd Cir., 2010). The Appeals Court wrote “The more difficult issue, is whether eBay is liable of contributory trademark infringement—i.e., for culpably facilitating the infringing conduct of counterfeiting vendors.” The court concluded that Tiffany had failed to demonstrate that eBay was supplying its services to individuals *who it knows or had reason to know* were selling counterfeit Tiffany goods. The court did make a finding that “eBay appears to concede that it knew as a general matter that counterfeit Tiffany products were listed and sold through its website,” but this general knowledge was not sufficient to trigger liability. The liability appears to trigger only when specific individuals (i.e., sellers or stores) are engaged in

the counterfeiting of goods, and can be notified to eBay. An appeal is also pending.

This decision implies that eBay, to shield itself from contributory trademark liability in the United States, must take action against any individual or store actively infringing the rights of the trademark owner. eBay provides sufficient information as to the seller of goods for owners to document a pattern of illegal activity by certain sellers. Notification to eBay should not only include the item number but should also include the seller’s trade name. eBay will have to take action against the seller once a pattern has been observed and notified. ■

## Spotlight on Innovation: The Bionic Wrench

It takes more than just a great idea to lead to a commercially successful invention.

It takes a dedicated team of knowledgeable professionals to ensure that novel new products are fully realized, marketed, and protected. Dan Brown, President of Loggerhead Tools, knows this firsthand. He holds over 25 utility patents assigned to a broad array of products, including both consumer goods and the parts that make them work. Perhaps his most well-known invention, though, is the Bionic Wrench, a remarkable tool that is quickly becoming a sought-after addition to every toolbox. With the help of Angelo Bufalino, Brown’s longtime intellectual property attorney, the success of the Bionic Wrench serves to demonstrate the importance of teamwork in the design, development, and commercialization process.

Upon leaving college and entering the workforce, Dan Brown challenged himself to earn a patent. A few years after receiving his biology degree from St. Xavier University, he joined a suburban Chicago-based plastics manufacturing company, during which time he was confronted with a problem that led to his first invention and patent application process—and his first meeting with Angelo Bufalino. After being tasked with fixing an aging product, Brown concluded that the only way to effectively fix the problem was to completely redesign a piece of the equipment from a new perspective. The invention that resulted not only solved the problem in a novel way, but also led Brown to realize both the marketplace value of his ingenuity and, as importantly, that it needed to be protected. Brown’s employer sought the help of a young intellectual property attorney who had a



reputation for understanding tough technical issues. Bufalino successfully helped Brown obtain his first patent, and a decades-long relationship was born.

Over the years, Brown, seeking to create new product value and competitive advantage, not only continued to create and patent new inventions, but he also began to develop a broader expertise in the area of new product development as a independent consultant. Seeking a better way to sell his services to prospective clients, Brown had decided to develop an in-house case study product, thus he needed the perfect case study to demonstrate its value. One afternoon in the weeks that followed, Brown's son was using a pliers-type tool for removing a blade from the family's lawnmower. Recognizing that although this was convenient, but concerned that the tools his son was using would cause damage to the mower's parts. Brown recognized a new need and set out to design a tool with the simplicity of a pair of pliers and the performance of a wrench as his case study project. After a lot of work, in less than two years, the Bionic Wrench was born.

When Brown decided to pursue a patent for this new invention, he once again turned to his longtime intellectual property attorney. Through years of successful patent and trademark work, Brown knew that Bufalino's strong engineering background and extensive patent prosecution experience would ensure that a normally complicated application process would go much more smoothly. Brown also knew that his strategy of designing a product unlike any other currently on the market would increase his likelihood for success. He was correct on both accounts. In approximately one year, an exceptionally short period of time by patent application standards, Brown received word from the U.S. Patent and Trademark Office that his patent application had been approved.

The rest is history. The Bionic Wrench has since gone on to win numerous national and international awards, including the Chicago Innovation Award in 2006. At the ceremony, when called on stage to receive his award, Brown bucked tradition and brought all members of his Bionic Wrench team to join him at the podium. And among the group of people who came up on stage, standing next to him as he had done for over 20 years, was Angelo Bufalino. ■

## Vedder Price Welcomes New Patent Agent *Addition of Dr. Wayne Zou Continues IP Group's Expansion*

Vedder Price is proud to announce that Dr. Zhiwei "Wayne" Zou has joined the firm as a registered patent agent in its Intellectual Property Group. Dr. Zou's strong background in electrical engineering, particularly with regard to semiconductor, medical device, micro-electronics and nanotechnology, will augment the group's already formidable capability in these areas.

"We are thrilled by Wayne's addition to our group and the extra capacity and expertise he brings to our patent prosecution practice," stated Angelo J. Bufalino, Chair of Vedder Price's 22-member Intellectual Property Group. "Wayne's unique experience will further enable us to provide both our domestic and international clients with the value-minded and efficient service they have come to expect from Vedder Price."

Dr. Zou joins Vedder Price after spending the past year at an intellectual property boutique firm in Cleveland. A native of China, Zou is fluent in both English and Mandarin. He received his undergraduate degree from Nanjing University, one of China's top schools, and his doctorate from the University of Cincinnati. He has published extensively in academic journals and has won numerous awards for his research and writing. ■

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## Technology and Intellectual Property Group

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 input 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 questions or comments concerning materials in this newsletter.

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Vedder Price is a national business-oriented law firm with more than 250 attorneys in Chicago, New York and Washington, D.C.

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