



Wednesday, October 27
9:00am-10:30am

905 - IP Year in Review

Judy Powell

Partner

Kilpatrick Stockton

Kelly Slavitt

Counsel

In Transition

Lydia Cheuk

General Counsel & Business Affairs Director

Blue Man Productions, LLC

Andrew Pham

Associate General Counsel, Global Intellectual Property

Verint Systems Inc.

Faculty Biographies

Lydia Cheuk

Lydia Cheuk is the general counsel and business affairs director for Blue Man Group. She works on business and legal issues relating to a variety of domestic and international creative projects, including theatrical productions, music albums, music scores for films and television, and film. She also represents and counsels various individual performers, musicians, writers, and artists.

Prior to joining Blue Man Group, Ms. Cheuk was an associate at Goodwin Procter, where she worked on venture capital transactions as well as mergers and acquisitions.

Ms. Cheuk received her undergraduate degree from the University of Michigan and law degree from the New York University School of Law.

Andrew Pham

Andrew T. Pham is the vice president and associate general counsel, global intellectual property and licensing, for Verint Systems Inc.-a leading provider of Actionable Intelligence(R) solutions for workforce optimization, IP video, communications interception, and public safety. He counsels Verint(R) on patent, trademark, copyright, open source and other intellectual property and technology issues including licensing and litigation.

Mr. Pham's primary research and publication interests include the economics of patents and patenting, portfolio-based patent strategies and management, global patent protection, patent monetization, and corporate open source policy and management.

Mr. Pham holds a JD from Marquette Law School, and a Bachelor of Science in Electrical Engineering and an MBA.

Judy Powell

Kilpatrick Stockton

Kelly Slavitt

Kelly M. Slavitt is a transactional intellectual property attorney.

Until recently, she was in the Corporate Legal Department at General Electric counseling her lighting, appliances, energy, oil and gas, and Spanish television network clients on contract and transactional IP matters. Prior to joining GE, she was corporate counsel at The American Society for the Prevention of Cruelty to Animals (ASPCA) where she counseled the business on all corporate issues, ran the legal department and was the organizations first in-house IP counsel.

Prior to joining the ASPCA, Ms. Slavitt was a transactional IP/IT associate at Skadden, Arps, Slate, Meagher & Flom and Thelen Reid & Priest in New York City, and a solicitor at Allens Arthur Robinson in Melbourne, Australia.

Ms. Slavitt has been published numerous times in publications ranging from scholarly legal reviews to business law publications, and has spoken on panels at numerous conferences.

Ms. Slavitt received her BA from The Pennsylvania State University, her Masters of Public Administration from New York University, her JD from Brooklyn Law School, and her LLM from The Benjamin N. Cardozo School of Law.

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Many new issues, some we won't have time to touch on but note:

- David Kappos named as New Under Secretary of Commerce for Intellectual Property and Director of the USPTO
- Litigations: In re Bose, Victoria's Secret, Microsoft, RIM/ Visto, KSR, NFL logo licensing and antitrust, REDSKINS trademark, Citizens United
- Increase in comparative advertising but not in litigation
- Auction sites; keyword advertising
- Social networking sites; FTC blogging regulations

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Viacom v. Google

“Red Flags” and
 “Safe Harbors” under the DMCA

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YouTube claims "safe harbor" under 512(c) of DMCA, so it can't be liable for posting users' infringements;

Viacom says YouTube can't rely on 512(c) because it had knowledge of "facts or circumstances from which infringing activity is apparent"

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"Subsection (c)(1)(A)(ii) can best be described as a 'red flag' test. As stated in subsection (l), a service provider need not monitor its service or affirmatively seek facts indicating infringing activity . . ., in order to claim this limitation on liability"

Senate Report at 44-45

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COURT: No "red flags" here because

"The phrases 'actual knowledge that the material or an activity' is infringing, and 'facts or circumstances' indicating infringing activity, describe knowledge of specific and identifiable infringements of particular individual items. Mere knowledge of prevalence of such activity in general is not enough."

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COURT'S REASONING:
 the safe harbor is available to ISPs who do not monitor user postings;

the safe harbor is not available to ISPs who ignore red flags;

therefore ISPs who do not monitor cannot be held to have ignored red flags.

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The Internet and "Publication"

Getaped.com v. Cangemi (2002):

once a website goes "live" on the internet it is published for purposes of the Copyright Act.

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But WHERE is internet content "published"?

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Moberg v. 33T LLC

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[N]o civil action for infringement of the copyright in any United States work shall be instituted until preregistration or registration of the copyright claim has been made in accordance with this title.

17 U.S.C. § 411(a)

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[A] work is a "United States work" only if ... in the case of a published work, the work is first published ... simultaneously in the United States and another treaty party or parties, whose law grants a term of copyright protection that is the same as or longer than the term provided in the United States.

17 U.S.C. § 101

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“To require plaintiff to register his photographs in the United States prior to initiating suit against a United States company and the registrants of U.S.-based websites for their violation of United States law, which protects plaintiff’s copyrights, would flout United States law and the international union the U.S. has joined voluntarily.”

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Fairey v. Associated Press

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PATENTS

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Notable Cases

- **Bilski v Kappos** (subject matter) 130 S. Ct. 3218 (2010)
 - The 'machine or transformation' test is not the sole test for determining patentability of an invention under 35 U.S.C. §101.
 - The USPTO is currently working on a new multi-factor test for patentability that considers 'machine or transformation' as one of the factors and are soliciting public input in the decision.
- **Ariad Pharmaceuticals v. Eli Lilly & Co.** (written description) 598 F.3d 1336 (Fed. Cir. 2010)
 - The Patent Act's written description and enablement requirements are separate and distinct requirements.
 - The court's decision in *Ariad* set a flexible standard for assessing whether the inventor had 'possession as shown in the disclosure' of the patent specification.
- **Golden Hour Data Systems v. emsCharts** (joint infringement) 2010 U.S. App. LEXIS 16455
 - Joint infringement will not be found when the evidence of 'control or direction' is insufficient as a matter of law.
 - The decision likely results in future parties testing the boundaries of infringing use of system claims.

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Notable Cases

- **Tafas v. Doll** (continuation limits, claims & RCE limits)
 - Confirmed that the USPTO Final Rules are within the agency's rulemaking authority and that the rules regarding requests for continued examination, claims, and examination support documents are consistent with the law. The court declined to vacate a ruling that the PTO lacked substantive rulemaking authority when it tried to implement controversial patent claims and continuation practice rules.
 - Because the PTO voluntarily withdrew the previous rules, then implemented new ones, they could not claim the mootness necessary to vacate the rulemaking authority holding, because the implementation of new rules was within the PTO's control.
- **BlackBoard v. Desire2Learn** (means plus function) 368 Fed. Appx. 111
 - Means-plus-function claims require disclosure in the specification even if the means are already well known in the art.
 - The court rejected the argument that only specifying that a general purpose computer is programmed could provide adequate structure, per the court's decision in *Artisator Technologies Australia Pty Ltd. v. International Game Technology*, 521 F.3d 1328, 86 USPQ2d 1235 (Fed. Cir. 2008)
- **Wyeth and ElanPharma v. Kappos** (patent term extension)
 - The Patent Office had been under-calculating the patent term adjustments (PTA) owed to patentees because of USPTO delays during prosecution and must add together the two different 'periods of delay' to allow the proper extension.
 - The average PTA grant has increased by six-months — jumping from 14-months to 20-months.

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Patent Marking - *The Forest Group v. Bon Tool*

- Forest Group brought an infringement suit when Bon Tool switched to a foreign producer of the exact same product (construction stills). However, Forest Group's product did not meet their own patent's requirements, so the product that Forest Group was selling was falsely marked as patent protected.
- The Court of Appeals held that a qui tam plaintiff may collect up to \$500 for each falsely-marked product distributed.
- This decision is important because it opens the door to potentially large monetary judgments in false-marking cases. Anyone who marks their products as patented or patent pending should take this opportunity to review those markings to ensure that the product being marked falls within the scope of the listed patent and that the patent continues to be valid and enforceable.
- The case was remanded to determine exactly how many falsely-marked products there are.

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Post-Forest Group Landscape

- *Pequinot v. Solo Cup Company* (intent) Fed. Cir. June 10, 2010
 - Plaintiff must prove that false marking was done with intent to deceive the public.
 - Presumption of intent arises from marking combined with knowledge, but can be rebutted
 - Rebuttal evidence includes reliance on counsel and legitimate business and economic concerns
- *Stauffer v. Brooks Brothers, Inc.* (standing) 615 F. Supp. 2d 248 (S.D.N.Y. 2009)
 - Court ruled individual plaintiff lacked standing because he failed to show actual injury caused by the false marking
 - Actual injury could be shown by injury in fact to competition, to the U.S. economy, or the public, but this was not alleged
 - Decision appealed to the Federal Circuit
- *Presidio Components, Inc. v. American Technical Ceramics Corp.* (penalty) 2010 WL 1462757 (S.D. Cal. Apr. 13, 2010)
 - False marking found to have occurred, but maximum penalty of \$500 not applied
 - \$35 per unit sold applied instead, representing about 1/3 of average per-unit sales price
 - Court reasoned that such a fine would serve as a deterrent while not imposing a disproportionate liability for a mass-produced item

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USPTO Notables

- **Accelerated Examination**
 - Applications advanced out of turn when certain criteria satisfied
 - Applicant must perform extensive search
 - Green Technology highlighted for advanced examination
- **Patent Prosecution Highway (PPH)**
 - Fast-track examination procedures to expedite patenting
 - Leverages examinations by foreign patent offices
- **1 year anniversary of E-Office Action program**
 - Email notification to clients of new Office communication
 - easily downloadable format replaces paper mail
- **Excess fees stay within PTO** (\$129M authorized to be put towards backlog reduction)

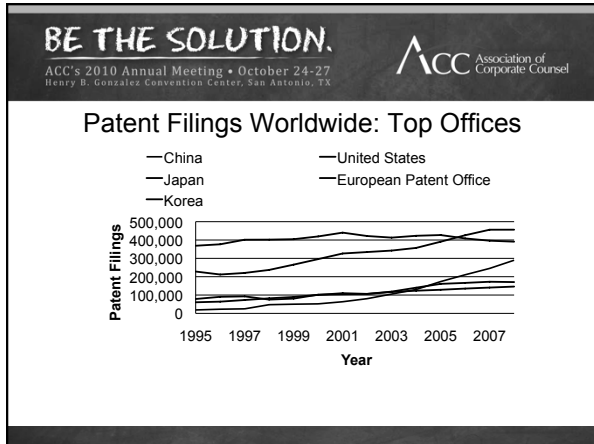
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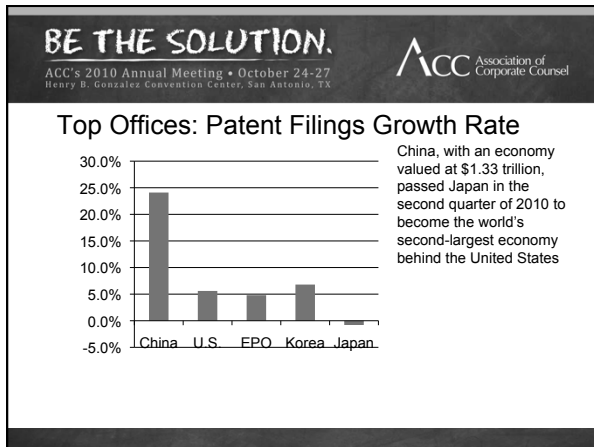
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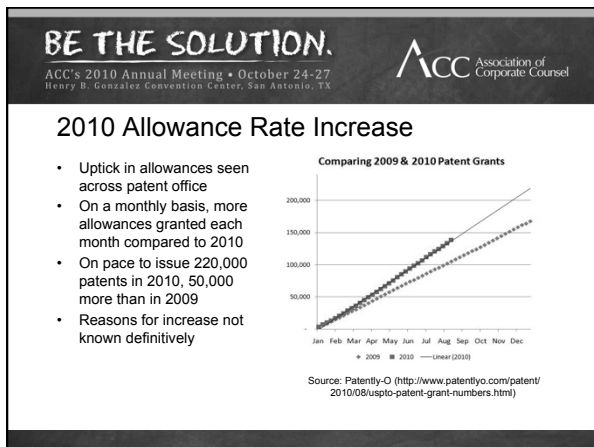
The Expanding Patent Prosecution Highway

On May 19, 2010 the USPTO and SIPO signed a MOU that included a bilateral patent prosecution highway (PPH) between the two offices.

Source: AwaPatent - Awa IP Blog







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The Economic Impact of Bilski

A Closer Look at Bilski

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Bilski v. Kappos, 561 U.S. ___ (2010)

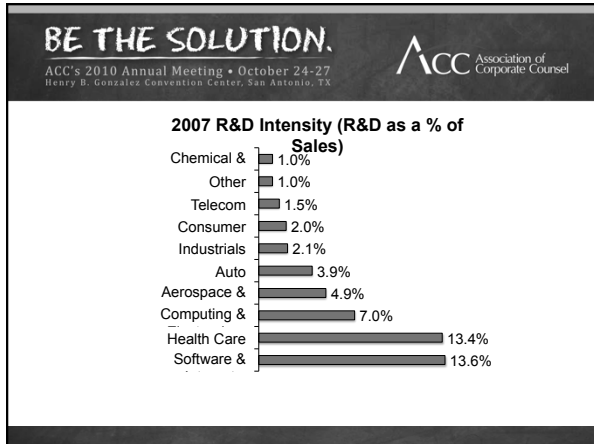
- Invention for explaining how commodities buyers and sellers in the energy market can protect against price change.
- Rejected on the grounds that the invention is not implemented on a specific apparatus, but merely manipulates an abstract idea, and solves a purely mathematical problem.
- Federal Circuit held that a process is patent eligible if: (1) it is tied to a particular machine or apparatus, or (2) it transforms a particular article into a different state or thing.
- Concluding that this "machine-or-transformation test" is the sole test for determining patent eligibility of a "process" under §101.
- The court applied the test and held that the application was not patent eligible.
- Bilski appealed.

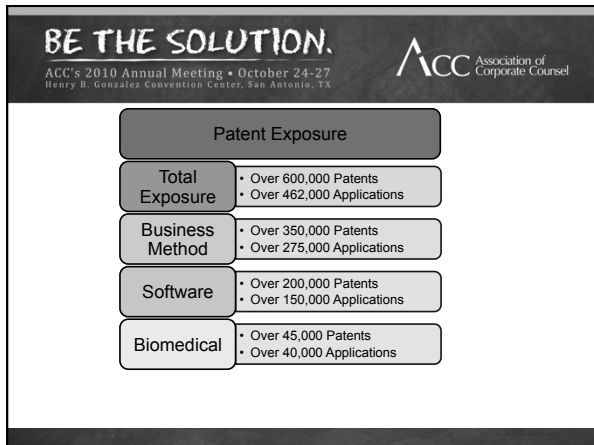
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Economic Exposure

Software	• 2008, Worldwide software industry is valued at \$300+ billion
Biotechnology & Pharmaceutical	• 2007, Bio & Pharma invested \$58+ billion in R&D • Pharma industry is valued at \$600+ billion
Online Retailers	• \$178 Billion annual Internet sales



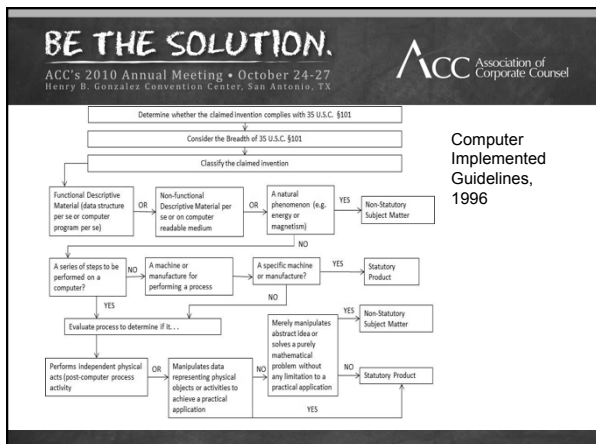


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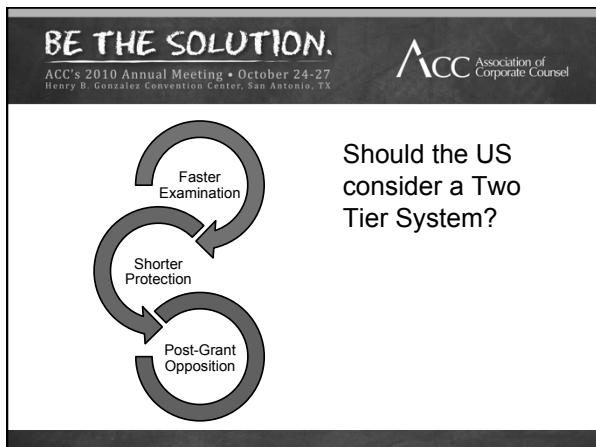
***Bilski v. Kappos* (Supreme Court 2010)(08-964)**

- Supreme Court affirmed that Bilski's method is not patentable subject matter for being merely an abstract idea
- However, Supreme Court declined to impose any new restrictions on patent-eligible subject matter
- Points to previous decisions in *Benson*, *Flook*, and *Diehr* as sufficient guideposts for determining subject matter eligibility
- **The "machine or transformation" test is deemed only one of many tests, not the sole test to determine subject matter eligibility**
- Software undoubtedly remains patentable



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Japanese Patent Office	<ul style="list-style-type: none"> Patents, for high level or creative technical ideas with a long life cycle are protected for 20 years. Utility models, for things with a potential for early implementation, protected for 10 years.
German Patent Office	<ul style="list-style-type: none"> Patents, grant protection for 20 years and go through the full examination Utility models, can be obtained in just a few weeks for a technical invention after application and last 10 years. The other qualifications are not examined but must still be met to assert rights.
European Patent Office	<ul style="list-style-type: none"> One patent system Business method patents are difficult to get, they are protected for 20 years.
United States Patent and Trademark Office	<ul style="list-style-type: none"> Patents are protected for 20 years No alternative system
Chinese State Intellectual Property Office	<ul style="list-style-type: none"> Patents are protected for 20 years Utility Models are protected for 10 years with a faster application process Business methods are not patentable



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TRADEMARKS AND UNFAIR COMPETITION

Judy Powell, Esq.
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Problem Areas for Trademark Owners

- Counterfeits
- Improper Sales of Genuine Goods
- Nominative Fair Use
- First Amendment Assertions
- Dilution
- False Advertising

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Counterfeits: Secondary Liability

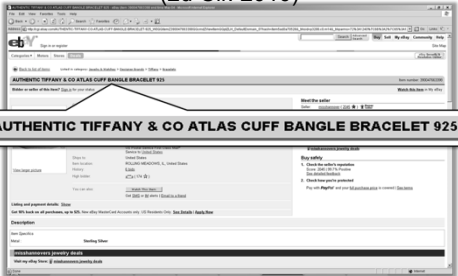
Can secondary liability be imposed on an online auction site based on its "generalized" knowledge of the sale of unauthorized merchandise using its services?

- No, specific knowledge of the sale of particular infringing goods is required. See *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93 (2d Cir. 2010).

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See Tiffany (NJ) Inc. v. eBay Inc., 600 F.3d 93 (2d Cir. 2010)



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Altered Genuine Goods: Likelihood of Confusion

Will liability for infringement lie for the incorporation of a genuine, but altered, good into another good?

- Yes, if there's a risk of post-sale confusion. See *Au-Tomotive Gold Inc. v. Volkswagen of Am.*, 603 F.3d 1133 (9th Cir. 2010).

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***Au-Tomotive Gold Inc. v. Volkswagen of Am.*, 603 F.3d 1133 (9th Cir. 2010)**



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Likelihood of Dilution

Should the likelihood of dilution by blurring factors set forth in Section 43(c) be applied literally?

- Yes. See *Starbucks Corp. v. Wolfe's Borough Coffee, Inc.*, 588 F.3d 97 (2d Cir. 2009).

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Likelihood of Dilution

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Dilution by Blurring

Visa, Int'l Service Ass'n. v. JSL Corp.
 2010 WL 2559003 (9th Cir. 28, 2010)

VISA vs EVISA



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Dilution by Tarnishment


Does a defendant's marketing of sex-related products under a mark similar to that of the plaintiff create a presumption (or at least a strong inference) of likely dilution?

- Yes. See *V Secret Catalogue, Inc. v. Moseley*, No. 08-5793, 2010 WL 1979429 (6th Cir. May 19, 2010).

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V Secret Catalogue, Inc. v. Moseley,
 605 F.3d 382 (6th Cir. 2010)



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V Secret Catalogue, Inc. v. Moseley,
 605 F.3d 382 (6th Cir. 2010)



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Likelihood of Dilution

[W]e think . . . [there is] a kind of rebuttable presumption, or at least a very strong inference, that a new mark used to sell sex-related products is likely to tarnish a famous mark if there is a clear semantic association between the two.

V Secret Catalogue, 605 F.3d at 388.

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Likelihood of Dilution

This res ipsa loquitur-like effect is not conclusive but places on the owner of the new mark the burden of coming forward with evidence that there is no likelihood or probability of tarnishment.

V Secret Catalogue, 605 F.3d at 388.

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Expanded Nominative Fair Use

Toyota Motor Sales USA, Inc. v. Farzad Tabari,
 2010 WL 2680891 (9th Cir. July 8, 2010)

Defendants allowed to use:

- buy-a-lexus.com
- buyorleaselexus.com



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The First Amendment

What role does the First Amendment play in trademark infringement and dilution litigation?

- A significant one if a non-trademark use by a defendant or an artistic work is involved. See *Commonwealth v. Omar*, 981 A.2d 179 (Pa. 2009).
- A significant one if the challenged use has political overtones. See *Protectmarriage.com – Yes on 8, a Project of Cal. Renewal v. Courage Campaign*, 93 U.S.P.Q.2d 1477 (E.D. Cal. 2010).

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Protectmarriage.com v. Courage Campaign,
 93 U.S.P.Q.2d 1477 (E.D. Cal. 2010)

ProtectMarriage.com

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The First Amendment

How easy is it to assert First Amendment protection on a motion to dismiss?

- Not very. See *Hilton v. Hallmark Cards*, 599 F.3d 894 (9th Cir. 2010).

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Hilton v. Hallmark Cards, 599 F.3d 894 (9th Cir. 2010)

Int. Cl. 25
 Prior U.S. Cls: 22 and 39
 United States Patent and Trademark Office Reg. No. 3,209,488
 Registered Feb. 11, 2007

THAT'S HOT

TRADEMARK
 PRINCIPAL REGISTER

• THAT'S HOT

Papi's First Day as a Waitress.

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False Advertising

Tiffany v Ebay Inc.: False by implication

"...But eBay did affirmatively advertise the goods sold through its site as Tiffany merchandise. The law requires us to hold eBay accountable for the words that it chose insofar as they misled or confused customers."

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False Advertising

FTC Guides Concerning the Use of Endorsements and Testimonials in Advertising

- an advertising message that consumers are likely to believe represents the opinions or experiences of a party other than the sponsoring advertiser
- blogs: potential liability for failure to disclose relationship even if sponsor has no actual control over content

“Red Flags” and “Safe Harbors” in *Viacom v. Google*¹

By Bob Clarida

The DMCA “safe harbor” provisions in §512(c) have recently been held to apply to the popular You Tube video site, which allows users to post and share videos with relatively few restrictions. The site was sued in 2007 by a number of television producers, led by Viacom, who found their valuable copyrighted programming being hosted by You Tube and made available for free on the site. The site had a designated agent and generally complied with takedown requests by the copyright owners, but the plaintiffs argued that §512 did not shield You Tube because it had “actual knowledge” of users’ infringements or at the least it was “aware of facts and circumstances from which infringing activity was apparent.” By the plain language of the DMCA, either allegation, if true, would disqualify the site from claiming the §512 safe harbor.

The plaintiffs further alleged that the infringements on You Tube did not result solely from “storage at the direction of a user,” again questioning the site’s entitlement to any protection under §512, and cited several alleged deficiencies in YouTube’s policies for removing clips and terminating the service of repeat infringers. Finally, plaintiffs claimed that You Tube had induced its users’ infringements, thereby incurring liability under the principle announced in the Supreme Court’s 2005 decision in Grokster.

The court, on cross-motions for summary judgment after extensive discovery, rejected all of plaintiffs’ arguments.

¹ No. 07 Civ. 2103, 2010 U.S. Dist. LEXIS 62829 (S.D.N.Y. June 23, 2010).

1. You Tube lacked sufficient knowledge

The court first addressed whether You Tube should be excluded from the protection of §512 because it had actual or constructive knowledge of its users' infringements, before receiving the specific takedown notices (with which it complied). The court's analysis focused on the "critical question" of what the statutory terms "actual knowledge" and "aware of facts or circumstances" mean in the context of §512.

Looking primarily to legislative history, the court focused on the discussions of the "applicable knowledge standard" in the Senate Report at 44-45 and the House Report at 53-54.

The key passage reads as follows:

*Subsection (c)(1)(A)(ii) can best be described as a "red flag" test. As stated in subsection (l), a service provider need not monitor its service or affirmatively seek facts indicating infringing activity (except to the extent consistent with a standard technical measure complying with subsection (h)), in order to claim this limitation on liability (or, indeed any other limitation provided by the legislation). However, if the service provider becomes aware of a "red flag" from which infringing activity is apparent, it will lose the limitation of liability if it takes no action. The "red flag" test [*21] has both a subjective and an objective element. In determining whether the service provider was aware of a "red flag," the subjective awareness of the service provider of the facts or circumstances in question must be determined. However, in deciding whether those facts or circumstances constitute a "red flag"-- in other words, whether infringing activity would have been apparent to a reasonable person operating under the same or similar circumstances--an objective standard should be used.*

Viacom at *20-21, quoting Senate Report at 44-45 and the House Report at 53-54 (emphasis added).

The court then looked to the legislative history of §512(d), a separate statutory safe harbor for so-called "information location tools" that was not significantly at issue in the You Tube dispute. The court cited the history of this provision, however, because it offered "an instructive explanation of the need for specificity" (id. at *25) in determining whether information known to the ISP rises to the level of a "red flag":

Like the information storage safe harbor in *section 512(c)*, a service provider would qualify for this safe harbor if, among other requirements, it "does not have actual knowledge that the material or activity is infringing" or, in the absence of such actual knowledge, it is "not aware of facts or circumstances from which infringing activity is apparent." Under this standard, a service provider would have no obligation to seek out copyright infringement, but it would not qualify for the safe harbor if it had turned a blind eye to "red flags" of obvious infringement.

For instance, the [*26] copyright owner could show that the provider was aware of facts from which infringing activity was apparent if the copyright owner could prove that the location was clearly, at the time the directory provider viewed it, a "pirate" site of the type described below, where sound recordings, software, movies or books were available for unauthorized downloading, public performance or public display. Absent such "red flags" or actual knowledge, a directory provider would not be similarly aware merely because it saw one or more well known photographs of a celebrity at a site devoted to that person. The provider could not be expected, during the course of its brief cataloguing visit, to determine whether the photograph was still protected by copyright or was in the public domain; if the photograph was still protected by copyright, whether the use was licensed; and if the use was not licensed, whether it was permitted under the fair use doctrine.

The important intended objective of this standard is to exclude sophisticated "pirate" directories--which refer Internet users to other selected Internet sites where pirate software, books, movies, and music can be downloaded or transmitted--from the [*27] safe harbor. Such pirate directories refer Internet users to sites that are obviously infringing because they typically use words such as "pirate," "bootleg," or slang terms in their uniform resource locator (URL) and header information to make their illegal purpose obvious to the pirate directories and other Internet users. Because the infringing nature of such sites would be apparent from even a brief and casual viewing, safe harbor status for a provider that views such a site and then establishes a link to it would not be appropriate. Pirate directories do not follow the routine business practices of legitimate service providers preparing directories, and thus evidence that they have viewed the infringing site may be all that is available for copyright owners to rebut their claim to a safe harbor.

In this way, the "red flag" test in *section 512(d)* strikes the right balance. The common-sense result of this "red flag" test is that online editors and catalogers would not be required to make discriminating judgments about potential copyright infringement. If, however, an Internet site is obviously pirate, then seeing it may be all that is needed for the service provider to encounter [*28] a "red flag." A provider proceeding in the face of such a red flag must do so without the benefit of a safe harbor.

Viacom at *25-26, quoting Senate Report at 48-49 and the House Report at 57-58 (emphasis added).

Applying this legislative history, the court concluded:

The tenor of the foregoing provisions is that the phrases "actual knowledge that the material or an activity" is infringing, and "facts or circumstances" indicating infringing activity, describe knowledge of specific and identifiable infringements of particular individual items. Mere knowledge of prevalence of such activity in general is not enough.

Viacom at *29 (emphasis added).

The court's analysis hinges on the legislative history's clear and repeated statements (echoed in the statute itself at §512(m)) that an ISP need not monitor its service in order to qualify for the safe harbor. See Senate Report at 44, House Report at 53. If that is the case, reasons Judge Stanton, then any information that would require monitoring or investigation of any kind by the ISP cannot be a "red flag." The reasoning here appears to be a simple syllogism: the safe harbor is available to ISPs who do not monitor; the safe harbor is not available to ISPs who ignore red flags; therefore ISPs who do not monitor cannot be held to have ignored red flags. Expressed as a Venn diagram, there would be a set of ISPs who ignore red flags, and a set of ISPs who are entitled to the safe harbor, and these two sets would be mutually exclusive. Some of the ISPs in the "safe harbor" set would be those who do not monitor. The court rules out the possibility, however, that there may be some ISPs who do not monitor, but who also ignore red flags; it does this by defining "red flag" in such a way that it requires monitoring:

The District Court in *UMG Recordings, Inc. v. Veoh Networks, Inc.*, 665 F. Supp. 2d 1099, 1108 (C.D. Cal. 2009), concluded that "CCBill teaches that if investigation of 'facts and circumstances' is required to identify material as infringing, then those facts and [*32] circumstances are not 'red flags.'" That observation captures the reason why awareness of pervasive copyright-infringing, however flagrant and blatant, does not impose liability on the service provider. It furnishes at most a statistical estimate of the chance any particular posting is infringing -- and that is not a "red flag" marking any particular work.

Viacom at 31 (emphasis added).

Under this reasoning, simply by declining to monitor, an ISP can guarantee that it will not be in a position to ignore any “red flags”; only an ISP who monitors could even possibly become aware that any red flags existed. As the court states at *35,

if a service provider knows (from notice from the owner, or a "red flag"²) of specific instances of infringement, the provider must promptly remove the infringing material. If not, the burden is on the owner to identify the infringement. General knowledge that infringement is "ubiquitous" does not impose a duty on the service provider to monitor or search its service for infringements.

Apart from general knowledge of “ubiquitous” infringement, it would seem that even a video called, say, “This is an illegal copy of U2’s hit song Vertigo” would not qualify as a red flag under Judge Stanton’s definition, because it would require the ISP to investigate to verify that the contents of the video actually corresponded to the title. See *Perfect 10, Inc. v. CCBill*, 488 F.3d 1102, 1114 (9th Cir. 2007)(cited in *Viacom*)(websites called “illegal.net” and “stolencelebritypics.com” held not to be red flags because ISP has no “investigative duties”).

This certainly honors the “no monitoring required” language of §512(m) and the legislative history, but seems difficult to square with the statutory language that predicates safe harbor eligibility on either (a) “actual knowledge” of specific infringements or (b) “awareness of facts and circumstances” from which infringement is apparent. Under the court’s view, and that of the authorities it cites, like *CCBill*, it is difficult to imagine what facts and circumstances could possibly be sufficient to put a non-monitoring ISP on adequate notice. Indeed, Judge Stanton writes directly that “awareness of pervasive copyright-infringing, however flagrant and blatant, does not impose liability on the service provider.”

² Remember that a red flag can only be encountered if the ISP monitors content.

Viacom has stated its intention to appeal, and this aspect of the court's ruling – its extremely narrow reading of “awareness of facts and circumstances” in §512(c) -- would seem to be the most vulnerable.

Also, as noted above, the legislative history relied on most heavily by the court deals with §512(d), the safe harbor for information location tools, rather than the §512(c) safe harbor for storage (that was YouTube's primary defense), and the court nowhere offers any argument for applying the legislative history of one section of the law when interpreting a different section. The court also cites a recent trademark decision in support of its conclusion, *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93 (2d Cir. 2010), deeming it “analogous” support for the “same principle” as embodied in the DMCA. The court's reliance on such arguably tangential authority will no doubt be scrutinized very carefully by the Second Circuit on appeal.

2. YouTube's User Infringements “resulted from storage”

In addition to finding that YouTube satisfied the knowledge requirement, Judge Stanton held that all of YouTube's principal activities fell within the scope of § 512(c), which pertains only to “infringement of copyright by reason of the storage at the direction of a user of material” on an ISP's network. The court found that all of the activities set forth in the definition of “service provider” in § 512(k)(1)(B)(providing network access, operating facilities therefor, transmission, routing or providing of connections, etc.) were protected by §512(c) where these actions “flow from the material's placement on the provider's system or network: it is inconceivable that they are left exposed to be claimed as unprotected infringements. As the Senate Report states (p. 8):

In the ordinary course of their operations service providers must engage in all kinds of acts that expose them to potential copyright infringement liability.”

Viacom at *38-39 (emphasis added).

The court's principal support for this conclusion is language from the *UMG Recordings, Inc. v. Veoh Networks, Inc.*, 620 F. Supp. 2d 1081, 1089 (C. D. Cal. 2008), which opined that

Common sense and widespread usage establish that "by reason of" means "as a result of" or "something that can be attributed to" So understood, when copyrighted content is displayed or distributed on Veoh it is "as a result of" or "attributable to" the fact that users uploaded the content to Veoh's servers to be accessed by other means. If providing access could trigger liability without the possibility of DMCA immunity, service providers would be greatly deterred from performing their basic, vital and salutary function--namely, providing access to information and material for the public.

Quoted in *Viacom* at *39 (emphasis added).

This broad range of activities was held to be the proper "collateral scope" of the term "storage" in §512(c). Other activities, which the court did not identify, might fall outside the scope of §512(c) and expose the ISP to liability, said the court, but permitting users to access the stored material did not. There is little further development of the argument on this point, nor any finding of fact as to what YouTube's other activities may have been.

3. YouTube's takedown and repeat-infringer policies were adequate

The court further held that YouTube's safe-harbor eligibility was not lost due to alleged shortcomings with its takedown and repeat-infringer policies. There were three challenges to the policies. First, plaintiffs alleged that YouTube's "three-strikes" policy for terminating repeat infringers was flawed because it undercounted the actual number of "strikes" that a particular user should have. Specifically, YouTube counted only one strike when it received a single takedown notice detailing multiple infringements posted by the same user, and when it received multiple takedown notices for the same user in a two-hour period. The court did not find this to be a violation of § 512(i)(1)(A), which requires repeat-infringer policies to be "reasonably implemented." The standard for evaluating whether a policy is "reasonably implemented" appears to be set forth in a passage of legislative history the court quoted from *UMG v. Veoh*,

supra, i.e., whether the policy “satisfies Congress's intent that ‘those who repeatedly or flagrantly abuse their access to the Internet through disrespect for the intellectual property [*43] rights of others should know that there is a realistic threat of losing that access.’ H.R. Rep. 105-551(II), at 61.” *Viacom* at *42-43, quoting *UMG v. Veoh* at 1118.

Next, the court found that YouTube’s decision to assign strikes only when a rights-holder manually requested a takedown, and not when videos were removed automatically by audio fingerprinting technology, was likewise unobjectionable, in large part because the filtering technology was not sufficiently reliable and verifiable in its initial rollout.

Finally, the court did not rescind YouTube’s safe harbor because it removed only the specific video clips named in a takedown notice, and not all clips that infringe the same works. Plaintiffs argued that the statute allows them to submit “a representative list” of works for takedown, under §512(c)(3)(A)(ii), and that therefore requiring URL-by-URL notice to the ISP is beyond the statute’s express terms. The court disagreed, largely on the basis of its firm conclusion that ISPs should not be required to perform any “factual search” as a condition of keeping their safe harbor status:

This "representative list" reference would eviscerate the required specificity of notice (see discussion in Parts 1 and 2 above) if it were construed to mean a merely generic description ("all works by Gershwin") without also giving the works' locations at the site, and would put the provider to the factual search forbidden by § 512(m). Although the statute states that the "works" may be described representatively, [*45] 512(c)(3)(A)(ii), the subsection which immediately follows requires that the identification of the infringing material that is to be removed must be accompanied by "information reasonably sufficient to permit the service provider to locate the material." 512(c)(3)(A)(iii). See House Report at 55; Senate Report at 46: "An example of such sufficient information would be a copy or description of the allegedly infringing material and the so-called "uniform resource locator" (URL) (i.e., web site address) which allegedly contains the infringing material." See also *UMG Recordings*, 665 F. Supp. 2d at 1109-10 (DMCA notices which demanded removal of unspecified clips of video recordings by certain

artists did not provide "information reasonably sufficient to permit the service provider to locate [such] material." (alteration in original).

Viacom at *44-45 (emphasis added).

Although a plaintiff's identification of a specific URL will require some effort on the part of the ISP, that effort will not involve any "factual search" by the ISP, and thus does not run afoul of §512(m).

4. The *Grokster* Inducement theory was not applicable

Plaintiffs also asserted that YouTube should be denied protection under §512(c) because it induced its users' infringements, under the Supreme Court's *Grokster* standard. See *Metro-Goldwyn-Mayer Studios Inc. v. Grokster Ltd.*, 545 U.S. 913 (2005). Without much analysis, Judge Stanton rejected this contention and held that the *Grokster* principles "have little application here": "*Grokster* addressed the more general law of contributory liability for copyright infringement, and its application to the particular subset of service providers protected by the DMCA is strained." *Viacom* at *36. Although the court rightly declined to make factual findings on summary judgment, it observed that "[t]he *Grokster* model does not comport with that of a service provider who furnishes a platform on which its users post and access all sorts of materials as they wish, while the provider is unaware of its content, but identifies an agent to receive complaints of infringement, and removes identified material when he learns it infringes. To such a provider, the DMCA gives a safe harbor, even if otherwise he would be held as a contributory infringer under the general law." *Viacom* at *37.

As with the § 512(c) knowledge standard, the court makes a very broad statement that seems to eliminate virtually all possible *Grokster*-based liability for ISPs that comply with the DMCA takedown provisions. This would be an extremely helpful interpretation of the law for

ISPs, but it seems to ignore the holding in *Columbia Pictures Industries, Inc. v. Fung*, No. 06 Civ. 5578, 2009 U.S. Dist. LEXIS 122661 (C. D. Cal. Dec. 21, 2009), cited in *Viacom*, which imposed inducement liability despite the defendant's asserted DMCA defense under § 512(d).³ The court's sole comment about *Fung* was that it involved "an admitted copyright thief" and undisputed evidence of purposeful, culpable expression and conduct aimed at promoting infringement, thus implying that *Grokster* liability was appropriate.

It must reasonably be assumed that a similar result could follow in *Viacom* if plaintiffs were able to establish sufficiently compelling evidence of such "expression and conduct" by YouTube, but the court appears to have granted summary judgment to YouTube on the issue (see at *45: defendants awarded summary judgment "against all of plaintiffs' claims for direct and secondary copyright infringement") without making any factual findings. This is a further issue that may be particularly vulnerable on appeal, if the court did in fact hold *Grokster* inapplicable without a detailed factual record.

³ Recall that Judge Stanton relied heavily on the legislative history of §512(d) to support his ruling on the knowledge standard, so it is unlikely that *Fung* can be distinguished solely on the basis that it was a §512(d) case rather than a §512(c) case.

17 U.S.C. § 107

Notwithstanding the provisions of section 106, the fair use of a copyrighted work, including such use by reproduction in copies or phonorecords or by any other means specified by that section, for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research, is not an infringement of copyright. In determining whether the use made of a work in any particular case is a fair use the factors to be considered shall include –

- (1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;
- (2) the nature of the copyrighted work;
- (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and
- (4) the effect of the use upon the potential market for or value of the copyrighted work.

The fact that a work is unpublished shall not itself bar a finding of fair use if such finding is made upon consideration of all the above factors.

2009 U.S. Dist. LEXIS 93402, *

Hakan Moberg, Plaintiff, v. 33T LLC, Cedric Leygues, and Erwan Leygues, Defendants.**CIVIL NO. 08-625(NLH)(JS)****UNITED STATES DISTRICT COURT FOR THE DISTRICT OF DELAWARE****2009 U.S. Dist. LEXIS 93402****October 6, 2009, Decided**

COUNSEL: [*1] **APPEARANCES:** Stephen B. Brauerman, Peter B. Ladig, The Bayard Firm, Wilmington, DE; Autumn J. Witt (pro hac vice), Maurice Harmon (pro hac vice), Harmon & Seidman LLC, On behalf of plaintiff.

James L. Higgins, Adam Wyatt Poff, Young, Conaway, Stargatt & Taylor, Wilmington, DE, On behalf of defendants.

JUDGES: NOEL L. HILLMAN, United States District Judge.

OPINION BY: NOEL L. HILLMAN

OPINION

HILLMAN, District Judge

This case concerns defendants' use of plaintiff's copyrighted photographs, and it raises issues of first impression with regard to foreign copyrighted works posted on the Internet¹, as well as methods of service under the Hague Convention. Defendants have moved to dismiss plaintiff's claims under the United States Copyright Act for lack of subject matter jurisdiction, defendant Erwan Leygues has moved to dismiss plaintiff's claims against him for lack of personal jurisdiction, and both individual defendants have moved to dismiss plaintiff's claims for improper service. For the reasons expressed below, all of defendants' motions will be denied.

1 The two authorities governing copyrights implicated here--the United States Copyright Act and the Berne Convention--were largely drafted and enacted prior to the [*2] widespread use of the Internet. As discussed below, the term "publication" is dispositive of defendants' motion, but that term has not been redefined since the 1976 Copyright Act went into effect. Further, as also discussed below, the Berne Convention, which is an international copyright treaty, was originally adopted in 1886, and the most recent version was

adopted in 1971, with the United States acceding to the union in 1988.

BACKGROUND

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2 Facts relevant to defendants' motion to dismiss are obtained from plaintiff's complaint, as is required by Federal Civil Procedure Rules 12(b)(1), (2) and (5). Other background details are gathered from the parties' briefing.

Plaintiff, Hakan Mogerg, is a professional photographer living in Sweden. In 1993, he created a series of photographs of a woman, titled "Urban Gregorian I-IX." Plaintiff is the owner and exclusive copyright holder of these photographs. The photographs were first published in 2004 on a German website, blaugallery.com, which is an online art shop that offers copies of the works for sale as canvas prints stretched over a wooden framework. Each of the Urban Gregorian photographs attributed the works to plaintiff.

At some point prior [*3] to December 2007, five of plaintiff's photographs were posted on the websites dynamicfactory.us, flashtemplate.us and myflashxml.com. These websites sell website design templates, which customers purchase to avoid the costs associated with hiring a professional web developer to design their websites from the ground up. Once a customer purchases the template, the customer uploads its own graphics, pictures, and text. The websites dynamicfactory.us and myflashxml.com are registered to 33T LLC, a Delaware limited liability company, with a registered office in Delaware. Defendant Cedric Leygues is also a registrant for dynamicfactory.us and myflashxml.com, and the sole operator and manager of 33T, responsible for the day-to-day operation of these websites. Erwan Leygues is the registrant for flashtemplate.us and responsible for the day-to-day operation of that website. Cedric Leygues and Erwan Leygues are citizens of, and reside in, France.

From at least December 2007 through March 2008, these websites displayed the Urban Gregorian images. In

March 2008, plaintiff's attorney contacted Cedric Leygues and 33T regarding their unauthorized use of plaintiff's photographs, and demanded that they [*4] cease their use. When plaintiff filed his complaint in September 2008, some of his images had been removed, but others still remained.³ Plaintiff claims that defendants have violated the United States Copyright Act, 17 U.S.C. § 501 et seq., and the Digital Millennium Copyright Act of 1998 ("DMCA"), 17 U.S.C. § 1201 et seq.

3 Defendants represent in their brief that all of the images have since been removed from their websites.

Defendants have moved for the dismissal of these claims on several bases: (1) all defendants argue that this Court lacks subject matter jurisdiction to hear plaintiff's Copyright Act claims; (2) both Leygues defendants contend that plaintiff has failed to properly serve them, and therefore the claims against them must be dismissed; and (3) defendant Erwan Leygues contends that all the claims against him must be dismissed because this Court lacks personal jurisdiction over him. Plaintiff has opposed defendants' motion.⁴

4 Following defendants' filing of their motion to dismiss, defense counsel moved to be relieved as counsel because defendants informed counsel not to take any further action on their behalf, and that if they did, they would not be compensated. Magistrate [*5] Judge Joel Schneider denied without prejudice counsel's motion, and allowed them leave to re-file the motion following the resolution of the motion to dismiss. (Docket No. 22.) Defense counsel did not file a reply brief in further support of their motion and in response to plaintiff's opposition.

DISCUSSION

A. Jurisdiction

Plaintiff contends that this Court has subject matter jurisdiction over this matter pursuant to 28 U.S.C. §§ 1331 and 1338. The Court resolves below the issue of whether subject matter jurisdiction exists for plaintiff's Copyright Act, 17 U.S.C. § 501 et seq., claims.⁵

5 As discussed herein, under the Copyright Act, a creator of a statutorily-defined "United States work" cannot bring an action for infringement of a copyright until either the copyright is registered in accordance with the relevant provisions of the Copyright Act or the Copyright Office has refused to register the copyright. 17 U.S.C. § 411(a). The consensus among federal appellate

courts is that the provisions of 17 U.S.C. § 411(a) are jurisdictional. *Walton v. U.S.*, 80 Fed. Cl. 251, 260 (Fed. Cl. 2008) (collecting cases). Whether § 411(a) is actually a jurisdictional requirement is currently before the [*6] United States Supreme Court, however. The Supreme Court granted certiorari in a Second Circuit case, *In re Literary Works in Electronic Databases Copyright Litigation*, 509 F.3d 116 (2d Cir. 2007), to consider the question: "Does 17 U.S.C. § 411(a) restrict the subject matter jurisdiction of the federal courts over copyright infringement actions?" *Reed Elsevier, Inc. v. Muchnick*, U.S. , 129 S. Ct. 1523, 173 L. Ed. 2d 655 (2009). Because the Court finds that plaintiff is not required to follow the provisions of § 411(a), we need not decide whether that section is a jurisdictional requirement or simply a precondition to suit.

B. Analysis

As presented above, defendants present three bases for dismissal: (1) lack of subject matter jurisdiction for plaintiff's Copyright Act claims; (2) faulty service; and (3) lack of personal jurisdiction over Erwan Leygues. Each argument will be addressed in turn.

1. *Whether this Court lacks subject matter jurisdiction to consider plaintiff's Copyright Act claims*

In order for this Court to have subject matter jurisdiction over a plaintiff's Copyright Act claim for an alleged infringement of a "United States work," the work must be registered according [*7] to the provisions in the Copyright Act.⁶ 17 U.S.C. § 411(a) ("[N]o civil action for infringement of the copyright in any United States work shall be instituted until preregistration or registration of the copyright claim has been made in accordance with this title."). Defendants contend that plaintiff's Urban Gregorian photographs are "United States works," which plaintiff has failed to register. Because plaintiff's works are not registered, this Court lacks subject matter jurisdiction to hear plaintiff's Copyright Act claims against them.

6 See, *supra*, note 5.

What appears to be a simple premise actually joins an issue of first impression not addressed by any court. Defendants contend that plaintiff's photographs, which were created undisputably outside the United States, are United States works because when they were posted on a German website, they were "published" simultaneously in Germany and in the United States. 17 U.S.C. § 101 ("[A] work is a 'United States work' only if-- (1) in the case of a published work, the work is first published-- . . . (B) simultaneously in the United States and another

treaty party or parties, whose law grants a term of copyright protection that is [*8] the same as or longer than the term provided in the United States." ⁷). Defendants argue that it is "well settled that Internet publications are published everywhere simultaneously, regardless of the location of the server hosting the website." (Def. Br. at 7.) Therefore, because the posting of a photograph on a website simultaneously "publishes" the photograph "everywhere," including the United States, it is a "United States work," and as such, it must be registered prior to filing suit for infringement.

⁷ Germany is a "treaty party," see International Copyright Relations of the United States at 4, available at <http://www.copyright.gov/circs/circ38a.pdf>, and the United States and Germany afford plaintiff, who created his work in 1993, the same protection of life of the author plus an additional 70 years, see <http://www.copyright.gov/help/faq/faq-duration.html> # duration; http://www.wipo.int/clea/en/text_html.jsp?lang=EN&id=976.

Plaintiff does not dispute that he has never registered his photographs in the United States. He contends, however, that defendants' premise is flawed because the posting of a photograph on a foreign country's website does not publish it simultaneously in the [*9] United States so as to transform the work into a "United States work." Because it is not a "United States work" as contemplated by our law, plaintiff argues that he is not required to follow the registration requirement of § 411(a) in order for this Court to have subject matter jurisdiction over his Copyright Act claims. The Court agrees with plaintiff, because, as explained below, the acceptance of defendants' position would overextend and pervert the United States copyright laws, and would be contrary to the Berne Convention.

As a primary matter, despite defendants' statement that it is "well settled" that "Internet publications are published everywhere simultaneously," the issue is far from settled. The two cases that defendants cite to support that proposition only make the observation that the Internet is located in no particular geographical location and it is available to anyone worldwide. (Def. Br. at 7, citing *Reno v. American Civil Liberties Union*, 521 U.S. 844, 849, 117 S. Ct. 2329, 138 L. Ed. 2d 874 (1997) (describing the Internet generally in the context of a challenge to the constitutionality of state statutes enacted to protect minors from "indecent" and "patently offensive" communications on the Internet) [*10] and *Nitke v. Gonzales*, 413 F. Supp. 2d 262, 264 (S.D.N.Y. 2005) (discussing the breadth of the Internet generally in the context of a constitutional challenge to the Communica-

tions Decency Act of 1996, which its obscenity provisions make it a crime to knowingly transmit obscenity by means of the Internet to a minor)). Indeed, defendants' citation to these cases, and not to any case that directly supports their proposition, evidences the lack of any court's consideration of the issue, let alone a consensus on it. Thus, in a case of first impression, this Court must consider the correlation between the posting of foreign copyrighted works on a foreign website and the copyright holder's ability to file suit for infringement in the United States pursuant to the United States Copyright Act.

Even though no court has addressed the issue, plaintiff has presented one legal scholar who has recognized the situation presented here. In his law journal article, *Toward a Functional Definition of Publication in Copyright Law*, 92 Minn. L. Rev. 1724, 1749 (2008), Thomas Cotter considered, *inter alia*, the interrelation between the Copyright Act, the Berne Convention, and the Internet, and what constitutes [*11] "publication." First, Professor Cotter explains that "in 1988, the United States acceded to the 1971 Paris Act of the Berne Convention for the Protection of Literary and Artistic Works, an international copyright treaty that, among other things, reflects an unfavorable view of copyright formalities." Cotter, *supra*, at 1730-31. The effect of the United States' accession to the Convention "is to exempt works the country of origin of which is not the United States from the registration requirement." ⁸ Id. at 1743. Thus, at first blush, it appears that because plaintiff's photographs did not originate in the United States, they are not subject to the registration requirement, and such a formality is not a prerequisite to suit.

⁸ The Union are those countries which have adopted the Berne Convention. The Convention provides that "[a]uthors shall enjoy, in respect of works for which they are protected under this Convention, in countries of the Union other than the country of origin, . . . the rights specially granted by this Convention," and that "[t]he enjoyment and exercise of these rights shall not be subject to any formality." Berne Convention, art. 5.

Professor Cotter explains, however, [*12] that the determination of the country of origin is not so simple, as that determination hinges on whether the work is "published," and, if so, where the work is published. For published works, under the Berne Convention, "[t]he country of origin shall be considered to be: (a) in the case of works first published in a country of the Union, ⁹ that country; in the case of works published simultaneously in several countries of the Union which grant different terms of protection, the country whose legislation grants

the shortest term of protection" Berne Convention, art. 5(4). The United States Copyright Act mimics this language: "[A] work is a 'United States work' only if-- (1) in the case of a published work, the work is first published-- . . . (B) simultaneously in the United States and another treaty party or parties, whose law grants a term of copyright protection that is the same as or longer than the term provided in the United States." 17 U.S.C. § 101. For unpublished works, the Berne Convention provides, "in the case of unpublished works . . . the country of the Union of which the author is a national." Berne Convention, art. 5(4)(c). The United States Copyright Act provides, [*13] "[A] work is a 'United States work' only if-- . . . in the case of an unpublished work, all the authors of the work are nationals, domiciliaries, or habitual residents of the United States." 17 U.S.C. § 101.

9 Germany is also a party to the Berne Convention. See International Copyright Relations of the United States at 4, available at <http://www.copyright.gov/circs/circ38a.pdf>.

Thus, the determination of whether plaintiff's photographs are United States works depends on the resolution of two issues: (1) whether the posting of plaintiff's photographs on the Internet is considered "publishing," and, if so, (2) whether "publishing" on the Internet causes the photographs to be published only in the country where the Internet site is located, or in every country around the world simultaneously.

Under the United States Copyright Act, "publication" means ¹⁰ "the distribution of copies or phonorecords of a work to the public by sale or other transfer of ownership, or by rental, lease, or lending. The offering to distribute copies or phonorecords to a group of persons for purposes of further distribution, public performance, or public display, constitutes publication. A public performance or display [*14] of a work does not of itself constitute publication." 17 U.S.C. § 101. ¹¹ The Berne Convention provides, "The expression 'published works' means works published with the consent of their authors, whatever may be the means of manufacture of the copies, provided that the availability of such copies has been such as to satisfy the reasonable requirements of the public, having regard to the nature of the work. The performance of a dramatic, dramatico-musical, cinematographic or musical work, the public recitation of a literary work, the communication by wire or the broadcasting of literary or artistic works, the exhibition of a work of art and the construction of a work of architecture shall not constitute publication." Berne Convention, art. 3.

10 The U.S. Copyright Act has included a definition of the term "publication" only since January 1, 1978, the date the 1976 Copyright Act

went into effect. For publications occurring on or after January 1, 1978, "the statutory definition provides some guidance, but it still leaves many issues, such as the status of Internet transmissions, unresolved." Cotter, *supra*, at 127.

11 "To perform or display a work 'publicly' means-- (1) to perform or display [*15] it at a place open to the public or at any place where a substantial number of persons outside of a normal circle of a family and its social acquaintances is gathered; or (2) to transmit or otherwise communicate a performance or display of the work to a place specified by clause (1) or to the public, by means of any device or process, whether the members of the public capable of receiving the performance or display receive it in the same place or in separate places and at the same time or at different times." 17 U.S.C. § 101.

Professor Cotter explains that the question of whether an Internet posting constitutes publication under U.S. law and the Berne Convention remains unresolved. Cotter, *supra*, at 1749. Equating Internet postings with publication presents numerous issues, which are outlined by Professor Cotter. *Id.* at 1787-88 (summing up that "[o]n balance, despite some common-sense appeal to the notion that works transmitted over the Internet are necessarily published, and despite a plausible textual basis for reaching this result, it is hardly obvious that this result would be desirable"). The Court does not need to delve into yet another unsettled issue, however, because even assuming [*16] that the German website "published" plaintiff's photographs, the Court holds that as a matter of U.S. statutory law the photographs were not published simultaneously in the United States. ¹²

12 Plaintiff represents in his complaint that his photographs, although taken in 1993, were never "published" prior to their posting on the German website in 2004. (Compl. P 10.) The Court assumes this representation to be true as it must when considering a Rule 12(b)(1) motion. See *Priority Healthcare Corp. v. Aetna Specialty Pharmacy, LLC*, 590 F. Supp. 2d 663, 666-67 (D. Del. 2008) (citing *Gould Elecs. Inc. v. United States*, 220 F.3d 169, 176 (3d Cir. 2000)) (stating that in reviewing a facial challenge under Rule 12(b)(1), the standards relevant to Rule 12(b)(6) apply). If these photographs had been "published" prior to the posting on the website, and that publication did not occur in the United States, the Court's analysis would be moot, because it could not be disputed that the photographs are not United States works, and therefore not subject to the registration requirements of the Copyright Act.

As mentioned above, defendants argue that because plaintiff's photographs were posted on a website, [*17] and because those photographs were visible instantaneously all over the world, they were published in not only Germany, but also the United States. This simultaneous publishing, defendants contend, subjected plaintiff to the formalities of the United States Copyright Act registration requirements, and those formalities must have been met prior to his ability to file suit against defendants for their infringement of his copyrighted works. As also mentioned above, however, this argument is untenable.

First, the proposition that publishing a work on a website automatically, instantaneously, and simultaneously causes that work to be published everywhere in the world, so that the copyright holder is subjected to the formalities of the copyright laws of every country which has such laws is contrary to the purpose of the Berne Convention. "The overarching purpose of the Berne Convention is to provide protection to authors whose works will be published in many countries." Christopher Sprigman, *Reform(aliz)ing Copyright*, 57 *Stan. L. Rev.* 485, 544 (2004). "Berne's proscription of mandatory formalities is a rational response to the difficulty of complying (and maintaining compliance) with differently [*18] administered formalities that may have been, absent the Convention, imposed in dozens of national systems, some with registries, some without, and none of which shares information." *Id.* (explaining that "[e]vidence for this view can be found in the origins of the Berne Convention"). Thus, if the publishing of plaintiff's photographs on the German website simultaneously caused them to be published in the United States, and such publication transformed the work into a United States work, plaintiff would be subjected to the very formalities that the Berne Convention eschews. To hold otherwise would require an artist to survey all the copyright laws throughout the world, determine what requirements exist as preconditions to suits in those countries should one of its citizens infringe on the artist's rights, and comply with those formalities, all prior to posting any copyrighted image on the Internet. The Berne Convention was formed, in part, to prevent exactly this result.¹³

13 All informed intellectual property regimes recognize that unduly complicated protection prerequisites are likely to chill artistic expression.

Second, also based on the purpose of the Convention to constitute "a Union [*19] for the protection of the rights of authors in their literary and artistic works," Berne Convention art. 1, the transformation of plaintiff's photographs into United States works simply by posting them on the Internet would allow American citizens to infringe on foreign copyrighted works without fear of

legal retribution, since the majority of foreign works are never registered in America. While not all Americans would exploit such an advantage, the misappropriation of intellectual property remains a significant problem and there is no principled reason why domestic users should be able to act with such impunity.

Third, the United States copyright laws, in accord with the Berne Convention, provide for protection of foreign works in the United States without requiring the artists to undertake any formalities in the United States. See 17 U.S.C. § 408(a) (2000) ("[R]egistration is not a condition of copyright protection."); *Kuklachev v. Gelfman*, 600 F. Supp. 2d 437, 473 (E.D.N.Y. 2009) (citing *Muchnick v. Thomson Corp.*, 509 F.3d 116, 133 (2d Cir. 2007)) ("Under the clear language of the statute, which refers only to 'any United States work,' foreign works originating in countries party [*20] to the Berne Convention need not comply with § 411."); *Cotter, supra*, at 1743-44, (explaining that "U.S. copyright subsists in unpublished works . . . from the moment of creation, wherever those works happen to be created. Upon publication, . . . U.S. copyright continues to subsist in the work . . . if, 'on the date of first publication, one or more of the authors is a national or domiciliary of the United States, or is a national, domiciliary, or sovereign authority of a treaty party, or is a stateless person, wherever that person may be domiciled"). The adoption of defendants' point of view would be contrary to that law.

Here, plaintiff is a citizen of Sweden, who enlisted a German art gallery to sell his copyrighted photographs. That German art gallery advertised the sale of plaintiff's photographs on the Internet by posting an image of each of the photographs for sale.¹⁴ According to plaintiff's complaint, a United States company and two French citizens who purportedly operate U.S. websites digitally copied those images, and without authorization used those images on their websites. To require plaintiff to register his photographs in the United States prior to initiating suit against [*21] a United States company and the registrants of U.S.-based websites for their violation of United States law, which protects plaintiff's copyrights, would flout United States law and the international union the U.S. has joined voluntarily. Therefore, the Court finds that plaintiff's photographs are not "United States works," and, accordingly, his copyright infringement claims may stand without registration of the photographs.

14 The Court need not consider whether thumbnail images of a copyrighted work, rather than the actual work itself, are subject to copyright protection. Presumably, the art gallery scanned or digitally imaged plaintiff's photographs so that they could be displayed on its website. If that were the

case, it would be incongruous not to afford the thumbnail images the same copyright protection as the original prints. See, e.g., *Perfect 10, Inc. v. Amazon.com, Inc.*, 487 F.3d 701, 711 (9th Cir. 2007) (explaining what thumbnail images are and affording them copyright protection). If not the original work itself, they are protected derivatives. See 17 U.S.C. § 106(2) (copyright owner has rights to derivative works). Of course, if plaintiff's photographs were taken digitally, [*22] and the images posted on the website were directly uploaded from plaintiff, those thumbnail images would be plaintiff's original copyrighted work. Regardless of the mechanics of posting the images of plaintiff's photographs onto the website, the site contained attribution to plaintiff for each of the works displayed. (Compl. P 10.) Thus, there is no question about who authored the images defendants allegedly used without authorization on their websites.

2. Whether plaintiff properly effected service on the individual French defendants

The individual defendants, Cedric Leygues and Erwan Leygues, contend that plaintiff has failed to properly serve them, and therefore, all claims against them should be dismissed pursuant to Federal Civil Procedure Rule 12(b)(5). Plaintiff argues that he has effected proper service, but if it is determined that service has not been sufficient, he requests that the Court quash his first attempts at service and permit him to re-serve the defendants.

The Federal Rules, in conjunction with the Hague Convention on the Service Abroad of Judicial and Extrajudicial Documents, outline methods of serving individuals in a foreign country. Rule 4(f) provides that a foreign [*23] individual may be served at a place not within any judicial district of the United States:

(1) by any internationally agreed means of service that is reasonably calculated to give notice, such as those authorized by the Hague Convention []; (2) if there is no internationally agreed means, or if an international agreement allows but does not specify other means, by a method that is reasonably calculated to give notice: (A) as prescribed by the foreign country's law for service in that country in an action in its courts of general jurisdiction; (B) as the foreign authority directs in response to a letter rogatory or letter of request; or (c) unless prohibited by the foreign country's law, by: (I) delivering a copy of the summons and of the complaint to the individ-

ual personally; or (ii) using any form of mail that the clerk addresses and sends to the individual and that requires a signed receipt; or (3) by other means not prohibited by international agreement, as the court orders.

Fed. R. Civ. P. 4(f).

Plaintiff undertook service of the French defendants via certified mail.¹⁵ Plaintiff obtained the address of defendants from the Internet Corporation for Assigned Names and Numbers ("ICANN"), [*24] which lists defendants' website registrations. Two registered letters sent to Erwan Leygues were both returned to plaintiff's counsel as "unclaimed." One registered letter sent to Cedric Leygues was never returned, and the second registered letter sent to him was returned to plaintiff's counsel as "unclaimed." Plaintiff's counsel has filed three Affidavits of Non-Receipt of Notice as to both defendants. (Docket Nos. 9, 11, 16.)

15 Defendant 33T, LLC does not contest service.

There is support in case law that a French citizen may be properly served by mail. *Research Systems Corp. v. IPSOS Publicite*, 276 F.3d 914, 926 (7th Cir. 2002) (finding that service by simple certified mail is a method permitted by Article 10(a) of the Hague Convention, so long as the foreign country does not object, and France has not objected); *Ramirez De Arellano v. Colloides Naturels Intern.*, 236 F.R.D. 83, 87 (D. Puerto Rico 2006) (finding that the "French Republic has acquiesced to service of judicial documents pursuant to Article 10 of the Convention which allows a plaintiff to serve process in one of three alternate methods, to wit[]: 1) by sending a judicial document, by postal channels, directly to persons [*25] abroad . . .").¹⁶ Further, the service rules of Delaware, which are applied in federal court, see Fed. R. Civ. P. 4(e)(1), contemplate the situation where a defendant has refused to claim a properly addressed and timely served certified letter. 10 Del. C. § 3104(h)(2) ("The return receipt or other official proof of delivery shall constitute presumptive evidence that the notice mailed was received by the defendant or the defendant's agent; and the notation of refusal shall constitute presumptive evidence that the refusal was by the defendant or the defendant's agent."); *Franklin v. Millsboro Nursing & Rehabilitation Center, Inc.*, 1997 Del. Super. LEXIS 164, 1997 WL 363950, *6 (Del. Super. 1997) (stating that once a plaintiff becomes aware that his initial notice has not been received he may elect to prove non-receipt by filing a § 3104(g) affidavit, but subjects himself to the alternate procedure set forth in § 3104(d) which requires

the sending of a notice to the defendant not later than seven days after filing the proof of non-receipt with the Court); Meyer and Meyer, Inc. v. Durme, 2000 Del. C.P. LEXIS 53, 2000 WL 33653417, *1 (Del. Com. Pl. 2000) (explaining that 10 Del. C. § 9524 allows service to be effected by certified mail and [*26] that a judgment be entered pursuant to subsection 9524(b)(2) for unclaimed or refused mail).

16 Plaintiff presents case law from several other circuits that evidences a split on whether the Hague Convention permits service via registered mail. (Pl. Br. at 18 n.1.) The Third Circuit has not yet addressed the issue, and the district courts within this Circuit have reached different results. See, e.g., Rogers v. Kasahara, 2006 U.S. Dist. LEXIS 74870, 2006 WL 6312904, *3 (D.N.J. 2006) (citing, *inter alia*, Raffa v. Nissan Motor Co., 141 F.R.D. 45 (E.D. Pa. 1991), which found that service by mail in Japan was contrary to the Hague Convention, and Eli Lilly & Co. v. Rousel Corp., 23 F. Supp. 2d 460 (D.N.J. 1998), which rejected that finding); In re Harnischfeger Industries, Inc., 288 B.R. 79, 86 (Bkrtcy. D. Del. 2003) (finding that service by registered mail to a defendant in the United Kingdom is proper under the Hague Convention). A cursory review of the case law shows that the determination of whether service via registered mail is proper under the Hague Convention depends upon in which country the plaintiff is attempting service. This Court makes no specific finding as to whether service by registered mail is proper [*27] in France.

Defendants filed their motion to dismiss prior to plaintiff's filing of the Affidavits of Non-Receipt. Since then, defendants have not disputed that they live at the address plaintiff sent the registered letters to, nor do they do not dispute that plaintiff has followed Delaware law concerning unclaimed service. Defendants further do not dispute that France or the Hague Convention allows for service by certified mail, and they do not indicate what method of service plaintiff must otherwise utilize. Most tellingly, defendants do not claim that they have never refused certified letters from plaintiff. As contemplated by the Delaware service rules, a defendant cannot simply ignore a registered letter to avoid service of a complaint against him.

Here, however, where mail is sent abroad to foreign defendants through multiple postal channels, issues of due process and comity under the Hague Convention are implicated. Indeed, plaintiff's counsel represents that one registered letter has become untraceable. Even in those cases where process has not been properly served on a defendant, "district courts possess broad discretion to

either dismiss the plaintiff's complaint for failure [*28] to effect service or to simply quash service of process." Umbenhauer v. Woog, 969 F.2d 25, 30 (3d Cir. 1992). Dismissal of a complaint is inappropriate, however, when there exists a reasonable prospect that service may yet be obtained, and "in such instances, the district court should, at most, quash service, leaving the plaintiffs free to effect proper service." *Id.* Therefore, under the unique circumstances presented here, the Court will quash plaintiff's prior attempts at service, and direct that he accomplish service pursuant to the other avenues available to him.¹⁷

17 The U.S. State Department has issued a circular on the preferred methods of serving an individual in France. Those methods include no-cost personal service through the French Central Authority. See http://travel.state.gov/law/info/judicial/judicial_647.html #. We note that service by mail is not listed as an option. While the State Department's general view of proper service can not trump this Court's interpretation of Delaware's service statute, it suggests caution in relying on a domestic statute in construing the proper method of service on international defendants. We leave for another day whether requiring the [*29] plaintiff to reserve the international defendants under circumstances where it is shown that plaintiff fully complied with domestic service requirements entitles the plaintiff to recover the additional service costs. Cf., Fed. R. Civ. P.4(d)(2)(allowing recovery of service and other costs where defendant otherwise subject to service fails to waive service).

3. Whether this Court can exercise personal jurisdiction over defendant Erwan Leygues

Defendant Erwan Leygues has also moved to dismiss plaintiff's claims against him for lack of personal jurisdiction. Jurisdiction under a state's long arm statute is measured by the defendant's specific contacts with the state. A court can exercise jurisdiction over an out-of-state defendant only if it purposefully avails itself of the privilege of conducting activities within the forum state. *Burger King Corp. v. Rudzewicz*, 471 U.S. 462, 475, 105 S. Ct. 2174, 85 L. Ed. 2d 528 (1985). To prove that a defendant has purposefully availed itself of that state, a plaintiff may rely upon a defendant's specific contacts with the forum state, and specific jurisdiction is invoked when a claim is related to or arises of out the defendant's contacts with the forum. *Helicopteros Nacionales de Colombia, S.A. v. Hall*, 466 U.S. 408, 416, 104 S. Ct. 1868, 80 L. Ed. 2d 404 (1984). [*30] In assessing the sufficiency of minimum contacts for personal jurisdiction, the

court must focus on the "relationship among the defendant, the forum and the litigation." *Keeton v. Hustler*, 465 U.S. 770, 104 S. Ct. 1473, 79 L. Ed. 2d 790 (1984).

If a defendant does not have specific contacts with the state, a court may exercise general jurisdiction if the defendant has maintained "continuous and systematic contacts" with the forum state. *Helicopteros*, 466 U.S. at 416. To establish general jurisdiction the plaintiff must show significantly more than mere minimum contacts with the forum state. *Provident Nat'l Bank v. California Fed. Sav. & Loan Ass'n*, 819 F.2d 434, 437 (3d Cir. 1987).

Once minimum contacts have been established, a court may inquire whether "the assertion of personal jurisdiction would comport with 'fair play and substantial justice.'" *Burger King Corporation*, 471 U.S. at 476 (citations omitted). For personal jurisdiction to comport with "fair play and substantial justice," it must be reasonable to require the defendant to defend the suit in the forum state. *World-Wide Volkswagen Corp. v. Woodson*, 444 U.S. 286, 292, 100 S. Ct. 559, 62 L. Ed. 2d 490 (1980).

If personal jurisdiction is contested, the plaintiff bears the burden to produce actual [*31] evidence, through sworn affidavits or other competent evidence, and not through bare pleadings alone, of the defendant's contacts with the forum. *Id.* (citing *Time Share Vacation Club v. Atlantic Resorts, Ltd.*, 735 F.2d 61, 66 and n.9 (3d Cir. 1984)). When the court does not hold an evidentiary hearing on a motion to dismiss for lack of personal jurisdiction, however, "the plaintiff need only establish a *prima facie* case of personal jurisdiction," *Miller Yacht Sales, Inc. v. Smith*, 384 F.3d 93, 97 (3d Cir. 2004), and the court must accept the plaintiff's evidence as true and resolve all disputed facts and draw all reasonable inferences in its favor. *Id.*

Here, Delaware's long arm statute provides,

As to a cause of action brought by any person arising from any of the acts enumerated in this section, a court may exercise personal jurisdiction over any non-resident, or a personal representative, who in person or through an agent:

- (1) Transacts any business or performs any character of work or service in the State;
- (2) Contracts to supply services or things in this State;
- (3) Causes tortious injury in the State by an act or omission in this State;

(4) Causes tortious injury in the State or outside [*32] of the State by an act or omission outside the State if the person regularly does or solicits business, engages in any other persistent course of conduct in the State or derives substantial revenue from services, or things used or consumed in the State;

(5) Has an interest in, uses or possesses real property in the State; or

(6) Contracts to insure or act as surety for, or on, any person, property, risk, contract, obligation or agreement located, executed or to be performed within the State at the time the contract is made, unless the parties otherwise provide in writing.

10 Del. C. § 3104(c).

Erwan Leygues argues that plaintiff's complaint merely parrots the language in § 3104(c)(1) and [*33] that plaintiff's complaint is devoid of any allegations that demonstrate that he actually transacts business in Delaware. Accordingly, Erwan Leygues argues that plaintiff has failed to establish specific jurisdiction over him. Additionally, Erwan Leygues argues that he has no connection with Delaware whatsoever, and therefore general jurisdiction is lacking as well. Moreover, Erwan Leygues argues that the exercise of personal jurisdiction over him would not comport with fair play and substantial justice.

Erwan Leygues' arguments are unavailing at this time. In the Third Circuit, even though "the mere operation of a commercially interactive web site should not subject the operator to jurisdiction anywhere in the world," "[i]f a defendant web site operator intentionally targets the site to the forum state, and/or knowingly conducts business with forum state residents via the site, then the 'purposeful availment' requirement is satisfied." *Toys "R" Us, Inc. v. Step Two, S.A.*, 318 F.3d 446, 452, 454 (3d Cir. 2003). In his complaint and opposition brief, plaintiff provides evidence that Erwan Leygues is the registrant for the website *flashtemplate.us*, and that the website is available [*34] to Delaware residents. (Compl. P 5 & Ex. 7; Pl. Br. at Ex. 2.) Plaintiff has not provided evidence, however, that by maintaining a website that is available in Delaware, Erwan Leygues has specifically targeted and conducted business with Delaware citizens.

The same issue arose in *Toys "R" Us*. There, the court found that *Toys "R" Us* failed to satisfy the purposeful availment requirement because the defendant's

"web sites, while commercial and interactive, do not appear to have been designed or intended to reach customers in New Jersey"; the defendant's "web sites are entirely in Spanish; prices for its merchandise are in pesetas or Euros, and merchandise can be shipped only to addresses within Spain. Most important, none of the portions of [the defendant's] web sites are designed to accommodate addresses within the United States." Toys "R" Us, 318 F.3d at 454. The court recognized, however, that "any information regarding [defendant's] intent vis-a-vis its Internet business and regarding other related contacts is known by [defendant], and can be learned by Toys only through discovery." *Id.* at 455. Accordingly, the court found that the district court erred when it denied Toys "R" Us [*35] the benefit of jurisdictional discovery.

In this case, Erwan Leyguens's website is in English and customers can purchase the website templates in U.S. dollars. Indeed, the address for the website contains a ".us" domain name, which "is the Internet country code top-level domain (ccTLD) for the United States, established in 1985[, and] [r]egistrants of .us domains must be United States citizens, residents, or organizations, or a foreign entity with a presence in the United States. See <http://en.wikipedia.org/wiki/.us>; see also http://www.nic.us/faqs/index.html#what_is_dotus. Thus, in contrast to Toys "R" Us, it is evident that Erwan Leyguens, through his website, is targeting United States customers. It is not clear, however, whether Erwan Leyguens has targeted Delaware specifically because only Erwan Leyguens holds that information. Accordingly, pursuant to the guidance of Toys "R" Us, the Court will deny defendant's motion without prejudice and direct the parties to undertake jurisdictional discovery limited to determining Erwan Leyguens's website's contacts with Delaware. Following the completion of that discovery, the Court will then determine whether personal jurisdiction exists [*36] over Erwan Leyguens.¹⁸

18 In his affidavit in support of his motion, Erwan Leyguens does not comment on whether flashtemplate.us has conducted business with Delaware citizens. Based on the evidence at this time, the Court finds that plaintiff has presented sufficient "factual allegations that suggest with reasonable particularity the possible existence of the requisite contacts between [the party] and the forum state," Toys "R" Us, Inc. v. Step Two, S.A., 318 F.3d 446, 456 (3d Cir. 2003) (internal quotations omitted), so that the exercise of juris-

diction over defendant is proper while jurisdictional discovery is conducted, see *In Re Automotive Refinishing Paint Antitrust Lit.*, 358 F.3d 288, 303 (3d Cir. 2004) (citing *Ins. Corp. of Ireland, Ltd. v. Compagnie des Bauxites de Guinee*, 456 U.S. 694, 706, 102 S. Ct. 2099, 72 L. Ed. 2d 492 (1982)) (explaining where the defendants "have voluntarily appeared in the court to challenge jurisdiction and jurisdictional discovery is pending, the District Court indisputably has jurisdiction to determine whether there is personal jurisdiction upon completion of jurisdictional discovery"). Therefore, the Court will deny defendant's motion without prejudice, and allow defendant to renew [*37] his motion upon the completion of jurisdictional discovery, if appropriate.

CONCLUSION

For the reasons expressed above, defendants' motion to dismiss plaintiff's complaint for lack of subject matter jurisdiction, improper service, and lack of personal jurisdiction is denied. Consistent with this Opinion, within 45 days, plaintiff shall re-serve Cedric Leyguens and Erwan Leyguens, and plaintiff and Erwan Leyguens shall then engage in jurisdictional discovery. By the end of the 45 day period, plaintiff shall inform the Court of the status of the service of process and the outcome of the jurisdictional discovery. An appropriate Order will be entered.

Date: October 6, 2009

/s/ Noel L. Hillman

NOEL L. HILLMAN, U.S.D.J.

ORDER

For the reasons expressed in the Court's Opinion filed today,

IT IS HEREBY on this 6th day of October, 2009

ORDERED that defendants' motion to dismiss [7] is DENIED; and it is further

ORDERED that, consistent with the Opinion and within 45 days, plaintiff shall re-serve the individual defendants, and plaintiff and defendant Erwan Leygues shall undertake jurisdictional discovery.

/s/ Noel L. Hillman

NOEL L. HILLMAN, U.S.D.J.

§ 512. Limitations on liability relating to material online

(a) Transitory Digital Network Communications.— A service provider shall not be liable for monetary relief, or, except as provided in subsection (j), for injunctive or other equitable relief, for infringement of copyright by reason of the provider's transmitting, routing, or providing connections for, material through a system or network controlled or operated by or for the service provider, or by reason of the intermediate and transient storage of that material in the course of such transmitting, routing, or providing connections, if—

(1) the transmission of the material was initiated by or at the direction of a person other than the service provider;

(2) the transmission, routing, provision of connections, or storage is carried out through an automatic technical process without selection of the material by the service provider;

(3) the service provider does not select the recipients of the material except as an automatic response to the request of another person;

(4) no copy of the material made by the service provider in the course of such intermediate or transient storage is maintained on the system or network in a manner ordinarily accessible to anyone other than anticipated recipients, and no such copy is maintained on the system or network in a manner ordinarily accessible to such anticipated recipients for a longer period than is reasonably necessary for the transmission, routing, or provision of connections; and

(5) the material is transmitted through the system or network without modification of its content.

(b) System Caching.—

(1) Limitation on liability.— A service provider shall not be liable for monetary relief, or, except as provided in subsection (j), for injunctive or other equitable relief, for infringement of copyright by reason of the intermediate and temporary storage of material on a system or network controlled or operated by or for the service provider in a case in which—

(A) the material is made available online by a person other than the service provider;

(B) the material is transmitted from the person described in subparagraph (A) through the system or network to a person other than the person described in subparagraph (A) at the direction of that other person; and

(C) the storage is carried out through an automatic technical process for the purpose of making the material available to users of the system or network who, after the material is transmitted as described in subparagraph (B), request access to the material from the person described in subparagraph (A), if the conditions set forth in paragraph (2) are met.

(2) Conditions.— The conditions referred to in paragraph (1) are that—

(A) the material described in paragraph (1) is transmitted to the subsequent users described in paragraph (1)(C) without modification to its content from the manner in which the material was transmitted from the person described in paragraph (1)(A);

(B) the service provider described in paragraph (1) complies with rules concerning the refreshing, reloading, or other updating of the material when specified by the person making the material available online in accordance with a generally accepted industry standard data communications protocol for the system or network through which that person makes the material available, except that this subparagraph applies only if those rules are not used by the

person described in paragraph (1)(A) to prevent or unreasonably impair the intermediate storage to which this subsection applies;

(C) the service provider does not interfere with the ability of technology associated with the material to return to the person described in paragraph (1)(A) the information that would have been available to that person if the material had been obtained by the subsequent users described in paragraph (1)(C) directly from that person, except that this subparagraph applies only if that technology—

(i) does not significantly interfere with the performance of the provider's system or network or with the intermediate storage of the material;

(ii) is consistent with generally accepted industry standard communications protocols; and

(iii) does not extract information from the provider's system or network other than the information that would have been available to the person described in paragraph (1)(A) if the subsequent users had gained access to the material directly from that person;

(D) if the person described in paragraph (1)(A) has in effect a condition that a person must meet prior to having access to the material, such as a condition based on payment of a fee or provision of a password or other information, the service provider permits access to the stored material in significant part only to users of its system or network that have met those conditions and only in accordance with those conditions; and

(E) if the person described in paragraph (1)(A) makes that material available online without the authorization of the copyright owner of the material, the service provider responds expeditiously to remove, or disable access to, the material that is claimed to be infringing upon notification of claimed infringement as described in subsection (c)(3), except that this subparagraph applies only if—

(i) the material has previously been removed from the originating site or access to it has been disabled, or a court has ordered that the material be removed from the originating site or that access to the material on the originating site be disabled; and
(ii) the party giving the notification includes in the notification a statement confirming that the material has been removed from the originating site or access to it has been disabled or that a court has ordered that the material be removed from the originating site or that access to the material on the originating site be disabled.

(c) Information Residing on Systems or Networks At Direction of Users.—

(1) In general.— A service provider shall not be liable for monetary relief, or, except as provided in subsection (j), for injunctive or other equitable relief, for infringement of copyright by reason of the storage at the direction of a user of material that resides on a system or network controlled or operated by or for the service provider, if the service provider—

(A)

(i) does not have actual knowledge that the material or an activity using the material on the system or network is infringing;

(ii) in the absence of such actual knowledge, is not aware of facts or circumstances from which infringing activity is apparent; or

(iii) upon obtaining such knowledge or awareness, acts expeditiously to remove, or disable access to, the material;

(B) does not receive a financial benefit directly attributable to the infringing activity, in a case in which the service provider has the right and ability to control such activity; and

(C) upon notification of claimed infringement as described in paragraph (3), responds expeditiously to remove, or disable access to, the material that is claimed to be infringing or to be the subject of infringing activity.

**RECENT DEVELOPMENTS IN U.S. TRADEMARK
AND UNFAIR COMPETITION LAW**

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* In the interest of full disclosure, the author notes his participation or that of his law firm in the following cases referenced by this outline: *Universal Furniture Int'l Inc. v. Collezione Europa USA, Inc.*, No. 07-2180, 2010 WL 3278404 (4th Cir. Cir. Aug. 20, 2010) (counsel for plaintiff); *Crash Dummy Movie, LLC v. Mattel, Inc.*, 601 F.3d 1387 (Fed. Cir. 2010) (appellate counsel for applicant); *Zino Davidoff SA v. CVS Corp.*, 571 F.3d 238 (2d Cir. 2009) (counsel for plaintiff); and *Dixie Consumer Prods. LLC v. Huhtamaki Ams., Inc.*, 691 F. Supp. 2d 1372 (N.D. Ga. 2010) (counsel for plaintiff).

**RECENT DEVELOPMENTS IN U.S. TRADEMARK
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I. USE IN COMMERCE

Consistent with the trend in recent years, courts spent a good deal of time during the past twelve months occupied with the concept of use in commerce.

A. Use in Commerce by Plaintiffs

Subject to the intent-to-use provisions of the Lanham Act, *see* 15 U.S.C. § 1051(b) (2006), a plaintiff seeking to establish priority of rights over another party must demonstrate prior use of its mark in commerce or, alternatively, priority under a specific federal statute. What constitutes prior use in commerce, however, proved to be a divisive issue in some cases.

1. Perhaps the most notable recent case to address the nature of use in commerce necessary to create protectable trademark rights came from the Fourth Circuit, which adopted a restrictive interpretation of the public use doctrine. *See George & Co. v. Imagination Entm't Ltd.*, 575 F.3d 383 (4th Cir. 2009). The plaintiff's claimed mark was LEFT CENTER RIGHT was a dice game, but the record demonstrated that the mark actually used by the plaintiff was LCR. The appellate court affirmed the district court's finding as a matter of law that any references by the public to the plaintiff's game using the LEFT CENTER RIGHT mark were insufficient to create protectable rights to that mark. Specifically, it held that "the Public Use doctrine generally is confined to instances in which the public modifies a well-known brand into a nickname or abbreviation." *Id.* at 403. Summary judgment in favor of the defendants therefore had been appropriate because

[i]n this case, [the plaintiff] is attempting to use the Public Use doctrine to create trademark rights in a . . . term . . . that is an elongation of an abbreviation Such an application is a dramatic expansion of the Public Use doctrine, as the doctrine is applied when the public abbreviates or nicknames a term, not the other way around. The tethering of the Public Use doctrine to nicknames and abbreviations makes perfect sense because an abbreviation or nickname typically adds distinctiveness to the owner's mark. . . . In contrast, an elongation does not add distinctiveness

Id. at 403-04.

2. The Ninth Circuit took a similarly restrictive approach to the "tacking" doctrine, pursuant to which a mark owner can claim priority of rights to

a current mark based on its earlier use of a different version of its mark. *See One Indus. v. Jim O'Neal Distrib., Inc.*, 578 F.3d 1154 (9th Cir. 2009), *cert. denied*, 130 S. Ct. 1739 (2010). In a dispute over use of stylized “O” marks for motocross apparel, the counterclaim plaintiff claimed that its then-current use of one such a mark was merely a continuation of its use of another such mark. In a unusual procedural disposition, the district court rejected this argument on a motion for a more definite statement, and the Ninth Circuit affirmed. Based on its past authority to similar effect, the appellate court explained that:

A trademark owner may “claim priority in a mark based on the first use date of a similar, but technically distinct, mark—but only in the exceptionally narrow instance where the previously used mark is the legal equivalent of the mark in question or indistinguishable therefrom such that consumers consider both as the same mark.”

Id. at 1160 (quoting *Brookfield Commc'ns Inc. v. W. Coast Entm't Corp.*, 174 F.3d 1036, 1047 (9th Cir. 1999)). “Tacking is a question of fact,” *id.* at 1160, but that did not prevent resolution of that question on a matter of law, particularly in light of the “narrow circumstances” under which the doctrine should be applied. *Id.* at 1160-61. Based on the record before it, the Ninth Circuit concluded that no such circumstances existed: “Although both marks consist of a styled O followed by an apostrophe, the similarities largely end there.” *Id.* at 1161.

3. The Board held that the sale of branded goods for testing and refinement purposes can constitute a bona fide use in commerce sufficient to create protectable rights. *See Automedx, Inc. v. Artivent Corp.*, Opposition No. 91182429, slip op. (T.T.A.B. Aug. 17, 2010). Of perhaps equal importance, the Board rejected the argument that regulatory approval – in this case from the FDA – was necessarily to render sales for these purposes lawful. In reaching this conclusion, the Board applied a multifactored test:

Determining whether the use of a mark is lawful under one or more of the myriad of regulatory acts involves two questions: (1) whether a court of competent jurisdiction under the statute involved has previously determined that [the] party [claiming priority] is not in compliance with the relevant statute; or (2) whether there is a *per se* violation of a statute regulating the same of a party's goods.

Id. at 23. Moreover, challengers proceeding under the second prong of this test must prove noncompliance by clear and convincing evidence and that there is “some nexus between the use of the mark and the alleged violation before the unlawfulness of a shipment can be said to result in the invalidity of [a claim of priority].” *Id.* at 24 (quoting *General Mills Inc. v. Healthy Valley Foods, Inc.*, 24 U.S.P.Q.2d 1270, 1274 (T.T.A.B. 1992)).

4. Section 5 of the Lanham Act allows claims of priority based on licensed use, and the concept underlying this statute came into play in three notable cases.
 - a. In one of the more publicized trademark disputes over the past year, the City of New York filed suit against a pair of former business partners over the rights to the TAVERN ON THE GREEN mark for a restaurant operated in Central Park. *See City of New York v. Tavern on the Green LP*, 94 U.S.P.Q.2d 1519 (S.D.N.Y. 2010). Although the defendants owned an incontestable registration of the mark for restaurant services, the record showed that the agreements with the city under which they operated the restaurant were styled as licenses and contained provisions giving the city control over various aspects of the defendants’ operations, pursuant to which “[t]he City frequently exercised its rights to regulate the hours of operation and the events that could be held at the ‘Tavern on the Green’ through letters and visits by City representatives.” *Id.* at 1521. Although not referring to Section 5, the court therefore had little difficulty concluding that the city had enjoyed continuous use of the mark since prior to the defendants’ use, and that its status as a prior user afforded it a defense to what otherwise would be the “conclusive” presumptions otherwise attaching to the defendants’ incontestably registered mark. *See id.* at 1523-24.
 - b. A second opinion in which Section 5 played a prominent role came from the Eighth Circuit. *See Pinnacle Pizza Co. v. Little Caesar Enters.*, 598 F.3d 970 (8th Cir. 2010). The case arose from the use of the HOT-N-READY mark by a pizza restaurant franchisor and the franchisees within its system. The mark’s original use had been by a single franchisee, and, in the context of a larger dispute between the parties, that franchisee eventually claimed to be the mark’s owner. Unfortunately for the franchisee, however, its franchise agreement contained a standard clause reciting that “any goodwill which might be deemed to have arisen or to arise in the future through the activities of [the franchisee] inures directly and exclusively to the benefit of

[the franchisor].” *Quoted in id.* at 980. Under these circumstances, the franchisor had reasonably claimed to be the mark’s owner in a successful application to register it. *See id.*

- c. In contrast, the Trademark Trial and Appeal Board held that the importation and sale into the United States by a third party of merchandise bearing a particular mark cannot support a claim of priority unless the third party acted under the authority of the mark’s owner. *See Bayer Consumer Care AG v. Belmora LLC*, 90 U.S.P.Q.2d 1587, 1591 (T.T.A.B. 2009) (“A third party’s importation and resale of goods does not by itself constitute ‘use’ by petitioner, at least not without some allegation that the third party was licensed or authorized by petitioner to ‘use’ petitioner’s alleged mark *on petitioner’s behalf.*”).
5. The Board took aim at an applicant whose claim of use in commerce was based on an internet website that, although displaying the applicant’s mark, did not provide information on how to order the accompanying goods. *See In re Quantum Foods, Inc.*, 94 U.S.P.Q.2d 1375 (T.T.A.B. 2010). The Board then reached the same conclusion in the online context several months later, rejecting a proffered specimen in the form of a brochure that similarly did not contain ordering information. *See In re Anpath Group*, 95 U.S.P.Q.2d 1377, 1381-82 (T.T.A.B. 2010).
 6. The Board had several opportunities to address the circumstances under which competing trademark claimants can claim priority through treaty-based rights.
 - a. One opposer’s allegations that it was entitled to claim priority of rights under Article *6bis* of the Paris Convention fell short as a matter of law. *See Bayer Consumer Care AG v. Belmora LLC*, 90 U.S.P.Q.2d 1587 (T.T.A.B. 2009). Although certain of the Board’s past decisions had suggested that the Convention created substantive rights, the Board disposed of that theory on two grounds. First, it held, the Convention was not self-executing. Second, with respect to the opposer’s claim that the Convention had been implemented through the adoption of Section 44 of the Lanham Act, 15 U.S.C. § 1126, the Board observed that

while Section 44 was “generally intended” to implement elements of the Paris Convention, it does not, through subsections 44(b) or (h) or otherwise, provide the user of an assertedly famous foreign trademark with an independent basis for cancella-

tion in a Board proceeding, absent use of the mark in the United States.

Id. at 1591 (citation omitted).

- b. The Board confirmed this holding in a later opinion, albeit one that recognized the foreign opposer's standing to assert a conventional dilution claim despite the absence of any use of the opposer's mark in the United States. *See Fiat Group Autos. S.p.A. v. ISM, Inc.*, 94 U.S.P.Q.2d 1111 (T.T.A.B. 2010). Nevertheless:

[W]hile Section 43(c) provides a dilution cause of action for the protection of famous unregistered marks, it does not provide a cause of action for famous unregistered marks not in use, in some way, in the United States, in the absence of a specific pleading of intent to use, the filing of an application for registration, and some basis for concluding that recognition of the mark in the United States is sufficiently widespread as to create an association of the mark with particular products or services, even if the source of the same is anonymous and even if the products or services are not available in the United States.

Id. at 1115.

B. Use in Commerce by Defendants

To trigger liability, each of the Lanham Act's statutory causes of action require that a defendant use the challenged mark in commerce. The proper standard for determining whether this has occurred continued to be a source of judicial controversy over the past year, especially in the online context.

1. Somewhat unusually, but with increasing frequency after the Supreme Court's opinions in *Ashcroft v. Iqbal*, 129 S. Ct. 1937 (2009) and *Bell Atlantic Corp. v. Twombly*, 550 U.S. 544 (2007), some courts have dismissed plaintiffs' claims that defendants were engaged in actionable uses in commerce on Rule 12(b)(6) motions to dismiss for failure to state claims.
 - a. For example, in *Cintas Corp. v. Unite Here*, 601 F. Supp. 2d 571 (S.D.N.Y.), *aff'd*, 355 F. App'x 508 (2d Cir. 2009), the plaintiff provided uniform-related goods and services under the federally registered CINTAS mark, while the defendants were

labor unions and employees of the plaintiff who operated several websites directly or indirectly accessible at the domain *www.cintasexposed.org*. Most of the content on the defendants' sites was critical commentary on the plaintiff and its labor practices, but there were three aspects of the sites that the plaintiff argued constituted actionable uses in commerce under Section 43(a): (1) the defendants' online sale of union "t-shirts, pins, and other sundry items"; (2) the defendants' advocacy of a "card-check/neutrality agreement" with the plaintiff that would allow the plaintiff's employees to unionize without a vote; and (3) the defendants' efforts to secure access to union dues and pension benefits from the plaintiff's employees. *Id.* at 580. The court rejected each of these claimed bases for a finding that the defendants' references to the plaintiff were uses in commerce: (1) the online union store was "twice-removed" from the challenged domain; (2) "an effort to obtain a card-check/neutrality agreement does not represent an attempt to profit"; and (3) the defendants' unionizing activities were "too attenuated and independent from the accused conduct to support any inference that the use is an attempt to profit." *Id.*

- b. Yet another successful motion to dismiss came in a case in which the plaintiff cigar manufacturer alleged infringement by a competitor not domiciled in the United States. *See Guantanamo Cigar Co. v. Corporacion Habanos, S.A.*, 672 F. Supp. 2d 106 (D.D.C. 2009). The plaintiff did not, however, claim that the defendant had used the challenged mark in U.S. commerce; rather, the complaint alleged that the defendant had advertised its mark in foreign publications that had found their way into the United States. Granting the defendant's Rule 12(b)(6) motion to dismiss for failure to state a claim, the court held that "[e]ven viewing the facts in the light most favorable to plaintiff, plaintiff has not demonstrated that the defendant could be responsible for a Lanham Act violation as its factual allegations are wholly inadequate . . . [to] constitute 'use in commerce.'" *Id.* at 110-11. In particular, "[a]lthough there is potential that some sales are being made in the United States, potentially with defendant's knowledge, there are not enough sales to show a substantial effect on United States commerce." *Id.* at 111.

2. In contrast, another court proved more skeptical of defense motions to dismiss. *See Specht v. Google, Inc.*, 660 F. Supp. 2d 858 (N.D. Ill. 2009). The complaint at issue asserted that the lead defendant not only had applied to register an offending mark, but had advertised the mark and distributed source code under it. Under these circumstances, the

court had little difficulty concluding in an application of both *Twombly* and *Iqbal* that “Plaintiffs have sufficiently put [the lead defendant] on notice of their Lanham Act claims and have provided the factual allegations supporting their claims that [the lead defendant] ‘used’ the [challenged] mark in commerce as required to survive a motion to dismiss.” *Id.* at 864.

3. In a question of first impression, the Board held that an applicant for registration cannot avail itself of the noncommercial use “exclusion” to liability for likely dilution recognized by 15 U.S.C. § 1125(c)(3)(C) (2006). As it explained:

[T]o obtain [its] registrations, applicant must demonstrate, prior to registration, use of its marks as service marks in commerce. . . . As such, applicant cannot claim noncommercial use of its marks when it is required to demonstrate use of its marks in commerce . . . in order to obtain federal registrations. Indeed, it would contradict the purpose of the [Lanham] Act to allow a defendant in a Board dilution case to assert the “noncommercial use” exception as an affirmative defense when it must establish use of its mark in commerce as a trademark or service mark in order to obtain a federal trademark or service mark registration. In other words, a party cannot seek to register or maintain a trademark or service mark for its own exclusive use in commerce in association with its identified goods or services and then claim that it is not using its mark commercially as a defense to a dilution claim.

Am. Express Mktg. & Dev. Corp. v. Gilad Dev. Corp., 94 U.S.P.Q.2d 1294, 1298 (T.T.A.B. 2010).

II. DISTINCTIVENESS

Judicial determinations of the degree of distinctiveness attaching to particular marks produced a number of interesting opinions over the past year, especially those addressing the significance of federal registrations to the distinctiveness inquiry.

- A. The recent tendency by courts and the Board alike to find claimed marks generic slowed over the past year, but the following words and phrases were nevertheless determined to be unprotectable:

1. “mattress.com” for “online retail store services in the field of mattresses, beds, and bedding,” *see In re 1800Mattress.com IP, LLC*, 586 F.3d 1359 (Fed. Cir. 2009);
 2. “hotels.com” for “providing information for others about temporary lodging; travel agency services, namely, making reservations and bookings for temporary lodging for others by means of telephone and the global computer network,” *see In re Hotels.com, L.P.*, 573 F.3d 1300 (Fed. Cir. 2009);
 3. “advertising.com” for various online advertising, marketing, and promotional services, *see Advertise.com, Inc. v. AOL Adver., Inc.*, No. 10-55069, 2010 WL 3001980 (9th Cir. Aug. 3, 2010);
 4. “tire tires tires” for retail tire stores. *See In re Tires, Tires, Tires, Inc.*, 94 U.S.P.Q.2d 1153 (T.T.A.B. 2009).
 5. “electric candle company” for light bulbs, “candle sleeves,” and light fixtures, *see In re Wm. B. Coleman Co.*, 93 U.S.P.Q.2d 2019 (T.T.A.B. 2010); and
 6. “praline,” “king cake,” “buttered popcorn,” “Georgia peach,” “dill pickle,” “buttercream,” and “hurricane” for flavor concentrates for shaved-ice confections. *See Parasol Flavors LLC v. SnowWizard Inc.*, 94 U.S.P.Q.2d 1635 (E.D. La. 2010).
- B. Although agreeing that a plaintiff lacking a federal registration bears the burden of demonstrating the distinctiveness of its claimed mark, courts differed on the evidentiary significance of a registration that has not reached its fifth anniversary or has otherwise not become incontestable.
1. Consistent with the majority rule (but not the arguable trend), a Second Circuit district court held that such a registration affirmatively shifts the burden of proof on mark validity from the plaintiff to the defendant; the defendant therefore must establish by a preponderance of the evidence that the registered mark is not valid. *See Heisman Trophy Trust v. Smack Apparel Co.*, 595 F. Supp. 2d 320, 326 (S.D.N.Y.), *partial summary judgment granted*, 637 F. Supp. 2d 146 (S.D.N.Y. 2009), *aff'd*, No. 09-9761, 2010 WL 2094113 (2d Cir. May 26, 2010).
 2. The Federal Circuit similarly held that ownership of a federal registration shifts the burden to a challenger of that registration to demonstrate invalidity by a preponderance of the evidence. *See Cold War Museum, Inc. v. Cold War Air Museum, Inc.*, 586 F.3d 1352, 1356 (Fed. Cir. 2009).

3. The Ninth Circuit dug a bit deeper in divining the mysteries of a nonincontestable registration on the Principal Register. As a general proposition, it held, “[i]f the plaintiff establishes that a mark has been properly registered, the burden shifts to the defendant to show by a preponderance of the evidence that the mark is not protectable.” *Zobmondo Entm’t, LLC v. Falls Media, LLC*, 602 F.3d 1108, 1114 (9th Cir. 2010). This holding in turn had two consequences, the first of which was that “[w]here the PTO issues a registration without requiring proof of secondary meaning, the presumption is that the mark is inherently distinctive.” *Id.* at 113-14. The second, however, was that “[a] corollary of this principle is that the registrant is not entitled to a presumption of secondary meaning unless the PTO required proof of secondary meaning as part of the application for registration of the mark.” *Id.* at 1114 n.7. What did all this mean to the parties’ cross-motions for summary judgment before the district court? “Federal registration in itself does not mean that [a plaintiff] can necessarily survive summary judgment solely on the basis of its registration.” *Id.* at 1115. Still, however, “the presumption of validity is a strong one, and the burden on the defendant necessary to overcome that presumption at summary judgment is heavy.” *Id.*
4. The same court went further in a case involving a registration that was both expired and had been owned by a third party even while it was extant. *See Lahoti v. VeriCheck, Inc.*, 586 F.3d 1190 (9th Cir. 2009). Prior to the parties’ dispute, the plaintiff sought to register the stylized VERICHECK mark for “check verification and collection services,” but its application was rejected because of a prior third-party registration of another stylized VERICHECK mark for “check verification services.” *Quoted in id.* at 1194. The third-party registrant failed to renew its registration during the pendency of the litigation, and the court recognized that “the statutory presumption of distinctiveness applies only when the mark holder’s own mark has been registered” *Id.* at 1199. Nevertheless, and although the Ninth Circuit found other reasons to vacate the district court’s finding of suggestiveness, the lapsed registration was evidence that the plaintiff’s mark was not merely descriptive on the ground that “the PTO’s registration of the [the third party’s mark] is evidence of the [plaintiff’s mark’s] distinctiveness, given the strong similarity between the appearance and purposes of the [third party’s mark] and the [plaintiff’s mark].” *Id.* (footnote omitted).
5. The Fifth Circuit also addressed the evidentiary significance of a nonincontestable registration, but produced more heat than light in doing so. *See Amazing Spaces, Inc. v. Metro Mini Storage*, 608 F.3d 225 (5th Cir. 2010). Reviewing a district court finding as a matter of law that

the plaintiff's registered mark lacked distinctiveness, the appellate court began its analysis with a suggestion that the defendant bore the burden of proof on the issue: "This presumption of validity may be rebutted by [the defendant] establishing that the mark is not inherently distinctive." *Id.* at 237. By the end of that analysis, however, the court was citing favorably to Fourth Circuit authority holding that only a shift in the burden of production was appropriate; of this authority, it noted that "[t]he approach that the Fourth Circuit has taken regarding the presumption of validity is consistent with our precedent." *Id.* at 239. As to the effect of the particular factual showing by the defendant before it, the court concluded that "[the defendant's] introduction of evidence that the [plaintiff's registered mark] is not distinctive has reduced the presumption of validity to evidence that the PTO is of the opinion that the [mark] is sufficiently distinctive to be legally protectable as a mark." *Id.*

- C. As a result of the Supreme Court's decision in *Park 'N Fly, Inc. v. Dollar Park & Fly, Inc.*, 469 U.S. 189 (1985), the significance of an incontestable registration to the distinctiveness inquiry was much clearer: "[I]ncontestable status . . . relieve[s] the trademark proprietor of any need to show 'secondary meaning'—in other words, whether consumers associate a mark with a particular producer is not relevant when the mark is incontestable." *Specialized Seating, Inc. v. Greenwich Indus.*, No. 07-14362010 WL 3155922, at *1 (7th Cir. Aug. 11, 2010); *see also Jay Franco & Sons, Inc. v. Franek*, No. 09-2155, 2010 WL 3156539, at *1 (7th Cir. Aug. 11, 2010) ("[Incontestable] status eliminates the need for a mark's owner in an infringement suit to show that his mark is distinctive.").
- D. The Board took a restrictive approach in to decisions toward the use of prior registrations to demonstrate the distinctiveness of a similar mark underlying a new application through the use of T.M.E.P. § 1212.09. *See In re Nielsen Bus. Media, Inc.*, 93 U.S.P.Q.2d 1545 (T.T.A.B. 2010) (precedential) (declining to allow applicant to register BOLLYWOOD REPORTER mark to rely upon prior registrations of HOLLYWOOD REPORTER); *In re Binion*, 93 U.S.P.Q.2d 1531 (T.T.A.B. 2009) (declining to allow applicant to register BINION and BINION'S marks to rely upon prior registrations of JACK BINION and JACK BINION'S marks).
- E. Notwithstanding the rule that surnames must have acquired secondary meaning to be protectable, the Board held that "[a] personal name mark, unless it is primarily merely a surname, is registrable on the Principal Register without a showing of secondary meaning, and thus is deemed to be inherently distinctive under the Lanham Act if the record shows that it is used in a manner that would be perceived by purchasers as identifying the services in addition to the person." *Brooks v. Creative Arts by Calloway LLC*, 93 U.S.P.Q.2d 1823,

1828-29 (T.T.A.B. 2010). It therefore allowed an opposition based on the prior use of the mark THE CAB CALLOWAY ORCHESTRA for a variety of goods and services to proceed, notwithstanding the absence of a demonstration of secondary meaning by the opposer.

- F. One court declined to accept the plaintiff's argument that the words "Sand Hill" had lost their primary geographic significance as a reference to Sand Hill Road in Menlo Park California. *See Sand Hill Advisors LLC v. Sand Hill Advisors LLC*, 93 U.S.P.Q.2d 1789 (N.D. Cal. 2010). Seeking to avoid a requirement that it prove secondary meaning for its SAND HILL ADVISORS mark, which it used in connection with wealth management services, the plaintiff contended that the mark was suggestive because it invoked the entrepreneurial cache of Silicon Valley. In granting the defendant's motion for summary judgment, the court rejected this theory because, as it saw things, "the salient question for purposes of ascertaining whether a mark is descriptive is whether the conveys information regarding the nature of the goods or services. Under that standard, the Court is persuaded that 'Sand Hill Advisors' means exactly what it says: It describes a geographic location where Plaintiff's advisory services." *Id.* at 1795 (citation omitted).
- G. One court held that the nature of a claimant's business may weigh against a finding of secondary meaning even if other relevant factors weigh in favor of such a finding. In *Fernandez v. Jones*, 653 F. Supp. 2d 22 (D.D.C. 2009), the plaintiffs alleged protectable rights to a mark and trade dress used in connection with a parking garage. Responding to a defense motion for summary judgment asserting a lack of distinctiveness, the plaintiffs pointed to their long-time exclusive use of the mark (but not, apparently, the trade dress). The court was unimpressed: "Even drawing all justifiable inferences in Plaintiffs' favor, that bare fact, standing alone, is insufficient to [establish] secondary meaning in this context. After all, the product here is a parking garage, not a consumer product or service which competes on factors other than location and price." *Id.* at 30.
- H. The Fifth Circuit came tantalizingly close to holding that the tripartite test for inherent distinctiveness set forth in *Seabrook Foods, Inc. v. Bar-Well Foods, Ltd.*, 568 F.2d 1342 (C.C.P.A. 1977) rather than generic-descriptive-suggestive-arbitrary-fanciful spectrum from *Abercrombie & Fitch Co. v. Hunting World, Inc.*, 537 F.2d 4 (2d Cir. 1976) is the preferred framework for evaluating the distinctiveness of nontraditional marks before backing away from that conclusion. *See Amazing Spaces, Inc. v. Metro Mini Storage*, 608 F.3d 225 (5th Cir. 2010). Affirming a finding as a matter of law that the plaintiff's stylized star design mark for self-storage services was not inherently distinctive, the appellate court noted that "[a]s the district court discovered, the challenge of placing the Star Symbol into *Abercrombie's* constellation of categories is a futile endeavor." *Id.* at 241. Yet, the court declined to recognize that that futile

ity arguably extends to the attempted placement of most, if not all, nontraditional marks on the *Abercrombie* spectrum of distinctiveness. On that issue, it concluded that

We do not go so far as to hold that the *Abercrombie* test is eclipsed every time a mark other than a word is at issue. Instead, we hold that the *Abercrombie* test fails to illuminate the fundamental inquiry in this case: Whether the [plaintiff's mark's] intrinsic nature serves to identify [the plaintiff] and its storage spaces.

Id. at 243 (internal quotation marks omitted). Like the district court before it, the court then proceeded to apply the *Seabrook* factors to determine that the plaintiff's claimed mark was not inherently distinctive. Observing that "the *Seabrook Foods* factors are variations on a theme rather than discrete inquiries," *id.* at 244, the court reached its ultimate conclusion because "[t]he record evidence is replete with similar or identical five-pointed stars, both raised and set in circles, and used in similar manners, such that . . . no reasonable jury could find that the Star Symbol is even a mere refinement of this commonly adopted and well-known form of ornamentation." *Id.* at 247.

III. FUNCTIONALITY

Full-blown treatments of functionality disputes in trade dress cases continued to decline in the wake of *TrafFix Devices, Inc. v. Marketing Displays, Inc.*, 532 U.S. 23 (2001). Nevertheless, the case law did produce some opinions of interest bearing on the significance of federal registrations to the functionality inquiry, including two in particular that were decided on the same day by the Seventh Circuit.

- A. Some courts recognized that ownership of a federal registration shifted the burden of proof on the issue of functionality from the plaintiff to the defendant, and that this shift had consequences for the ultimate outcome of the litigation.
 1. For example, the plaintiff in one case supported its motion for a default judgment by introducing into evidence copies of registrations covering various aspects of the watch configuration it sought to protect. *See Montblanc-Simpolo GmbH v. Colibri Corp.*, 692 F. Supp. 2d 245 (E.D.N.Y. 2010). Examining the sufficiency of the plaintiff's allegations, the court noted that, in light of the registrations, "the burden falls to the defendant to prove functionality." *Id.* at 256. Because the defaulting defendant had failed to do so, the issue was resolved against it. *See id.*
 2. In a second trade dress case in which a federal registration factored into the ultimate outcome of the case, the plaintiff, a purveyor of bourbon,

owned an incontestable registration of a mark described as a “wax-like coating covering the cap of the bottle and trickling down the neck of the bottle in a freeform irregular pattern.” *Quoted in Maker’s Mark Distillery, Inc. v. Diageo N. Am., Inc.*, No. 3:03-CV-93H, 2010 WL 1407325, at *3 (W.D. Apr. 2, Ky. 2010). Entertaining the defendants’ attack on the validity of the plaintiff’s mark on genericness and functionality grounds, the court held that “[t]hough the mark has become ‘incontestable’ pursuant to 15 U.S.C. § 1065, that status merely creates a presumption of validity, and does not bar certain statutory challenges.” *Id.* Nevertheless, [b]ecause the mark is incontestable, Defendants bear the burden of proving these assertions.” *Id.*

B. Although a federal trade dress registration therefore can be evidence that the underlying trade dress is nonfunctional, the Seventh Circuit proved less inclined to give that evidence significant weight in light of the disclosure of related utility patents.

1. The Seventh Circuit’s opinion in *Specialized Seating, Inc. v. Greenwich Indus.*, No. 07-1435, 2010 WL 3155922 (7th Cir. Aug. 11, 2010), arose from a dispute between two manufacturers of folding chairs. The plaintiff owned an incontestable registration covering the configuration of its chair, but the court did not accord the registration any significant weight in the inquiry into whether the configuration was functional, apparently because of its view that “[t]he principal effect of incontestable status is to relieve the trademark proprietor of any need to show ‘secondary meaning’—in other words, whether consumers associate a mark with a particular producer is not relevant when the mark is incontestable.” *Id.* at *1. The plaintiff’s problems went beyond not receiving any apparent presumption of nonfunctionality from its registration, however, because it owned several utility patents bearing on the design. Observing that “claims in an expired utility patent presumptively are functional,” *id.* at *3, the court was unreceptive to the plaintiff’s attempt to salvage the nonfunctionality of its configuration through the submission of evidence of alternative designs:

The list of alternative designs is very long, and it is easy to see why hundreds of different-looking folding chairs are on the market.

What this says to us is that *all* of the designs are functional, in the sense that they represent different compromises along the axes of weight, strength, kind of material, ease of setup, ability to connect (“gang”) the chairs together for maximum seating density, and so on. A novel or distinctive selection of attributes on these many dimensions can be protected for a time by a utility patent

or a design patent, but it cannot be protected forever as one producer's trade dress. When the patent expires, other firms are free to copy the design to the last detail in order to increase competition and drive down the price that consumers pay.

Id. at *4. The district court therefore had not erred in finding the plaintiff's design functional as a matter of law. *See id.* at *5.

2. A similar result held in another Seventh Circuit opinion, *Jay Franco & Sons, Inc. v. Franek*, No. 09-2155, 2010 WL 3156539 (7th Cir. Aug. 11, 2010), which held that the plaintiff's incontestably registered circular towel design was functional as a matter of law from both a utilitarian and aesthetic perspective. In contrast to its methodology in *Specialized Seating*, the court at least acknowledged that functionality was a defense to be proven by the defendant. *See id.* at *2 ("The Lanham Act lists a number of affirmative defenses an alleged infringer can parry with; one is a showing that the mark is 'functional.'"). That the defendant succeeded in doing, however, in part because of a dependent claim in a third-party utility patent. Although the plaintiff argued that its design did not fall within the patent's scope because the design did not infringe the patent, the court was unconvinced:

Proving patent infringement can be sufficient to show that a trademarked design is useful, as it means that the infringing design is quite similar to a useful invention. But such proof is unnecessary. Functionality is determined by a feature's usefulness, not its patentability or its infringement of a patent. . . . [T]hat an expired patent (which by definition can no longer be infringed) may evince a design's functionality demonstrates that proof of infringement is unnecessary. If an invention is too useless to be patentable, or too dissimilar to a design to shed light on its functions, then the lack of proof of patent infringement is meaningful. Otherwise it is irrelevant. A design may not infringe a patented invention because the invention is obvious or taught by prior art, but those and other disqualifies do not mean that the design is not useful.

Id. at *3 (citations omitted). Unfortunately for the plaintiff, the court found further support for the district court's finding of functionality as a matter of law in the aesthetic appeal of the plaintiff's circular towel:

[The plaintiff's] advertisements declare that the round towel is a fashion statement. Fashion is a form of function. A design's aesthetic appeal can be as functional as its tangible characteristics. And many cases say that fashionable designs can be freely copied unless protected by patent law.

...
 . . . A circle is the kind of basic design that a producer like [the plaintiff] adopts because alternatives are scarce and some consumers want the shape regardless of who manufactures it. . . . [S]ome consumers crave round towels—beachgoers who prefer curved edges to sharp corners, those who don't want to be 'square,' and those relish the circle's simplicity.

Id. at *5-6 (citations omitted).

- C. In a case in which no federal registration was in play, but a utility patent was, an Eleventh Circuit district court rejected on a defense motion for summary judgment a claim of trade dress protection for the design of an insulated beverage cup. *See Dixie Consumer Prods. LLC v. Huhtamaki Ams., Inc.*, 691 F. Supp. 2d 1372 (N.D. Ga. 2010). In doing so, the court relied not only on the claims of related utility patents, but on the drawings of one patent as well, which the court credited as evidence that the patent “cover[ed] the product feature at issue, albeit impliedly.” *Id.* at 1378.
- D. In *Colur World, LLC v. SmartHealth, Inc.*, 93 U.S.P.Q.2d 1690 (E.D. Pa. 2010), the court rejected the defendant's challenge to the plaintiff's averments of nonfunctionality for its line of pink nitrile gloves. On that issue, the plaintiff's complaint largely tracked the standard for non-functionality set forth in *Qualitex Co. v. Jacobson Products Co.*, 514 U.S. 159 (1995). The complaint also alleged that the plaintiff was the nation's only purveyor of pink nitrile gloves. Based on these allegations, the district court held that the plaintiff had pleaded sufficient facts to state a plausible claim for relief on the issue of non-functionality, “even if it ha[d] only done so by just barely ‘nudg[ing] its claims across the line from conceivable to plausible.’” *Colur World*, 93 U.S.P.Q.2d at 1696 (quoting *Bell Atl. Corp. v. Twombly*, 550 U.S. 544, 570 (2007)) (alterations in original).

IV. STANDING

A plaintiff seeking relief from a United States court must demonstrate its standing to do so on two levels. First, it must satisfy constitutional standing requirements. Second, it must demonstrate its prudential standing to proceed.

- A. Notwithstanding the increasingly frequent failure by courts to apply the express text of Section 32, 15 U.S.C. § 1114 (2006), one court did dismiss the Section 32 cause of action of a group of plaintiffs who did not own a federal registration, but had nevertheless “tagged along” on the infringement claim asserted by the actual registrant. *See Specht v. Google, Inc.*, 660 F. Supp. 2d 858, 867 (N.D. Ill. 2009).
- B. The cause of action created by Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a) (2006), is broadly worded, and this led the First Circuit to affirm a finding that one plaintiff had standing to assert a claim of likely confusion under that statute despite not having an ownership in the marks it sought to protect. *See Shell Co. (P.R.) Ltd. v. Los Frailes Serv. Station, Inc.*, 605 F.3d 10 (1st Cir. 2010). The plaintiff operated a number of gasoline service stations under various SHELL marks, while the defendant was a former franchisee of the registrant owner of those marks. At trial, the plaintiff had failed to demonstrate the precise nature of its relationship with the registrant, but neither the district court nor the First Circuit was much bothered by this. Instead, as the latter observed, “[a]nyone ‘who may suffer adverse consequences from a violation of section [43(a)] has standing to sue regardless of whether he is the registrant of the trademark.’” *Id.* at 22 (quoting *Quabaug Rubber Co. v. Fabiano Shoe Co.*, 567 F.2d 154, 160 (1st Cir. 1977)). As a consequence, “[the plaintiff], as the owner of numerous Shell stations, plainly has an interest in preventing the confusion of the Shell brand with the inferior-quality fuel that [the defendant] sold while still displaying some Shell trademarks.” *Id.* at 160 n.1.

V. LIKELIHOOD OF CONFUSION

In contrast to much of recent unfair competition case law, several opinions over the past year produced more than run-of-the-mill findings of liability or nonliability.

- A. Chief among these was the Sixth Circuit’s affirmance of a holding of no likelihood of confusion as a matter of law on a defense motion to dismiss for failure to date a claim. *See Hensley Mfg., Inc. v. ProPride, Inc.*, 579 F.3d 603 (6th Cir. 2009). The challenged use was of the personal name “Jim Hensley,” which belonged to the designer of the defendants’ trailer hitches. The plaintiff, which had purchased Hensley’s business years earlier, owned federal registrations of the HENSLEY and HENSLEY ARROW marks, and it alleged that the defendants’ (accurate) references to Hensley as the designer of their hitches created a likelihood of confusion. Although concluding that the challenged use qualified for the descriptive fair use defense under Section 33(b)(4) of the Lanham Act, 15 U.S.C. § 1115(b)(4) (2006), the Sixth Circuit also agreed with the district court that the plaintiff had failed to state a claim for infringement in the first instance. *See Hensley Mfg.*, 579 F.3d at 610-11.

- B. In contrast, a motion to dismiss allegations of likely confusion fell short in the highly publicized dispute between the owner of the NORTH FACE mark for various outdoor clothing and the purveyor of goods sold under the SOUTH BUTTE mark. *See N. Face Apparel Corp. v. Williams Pharm. Inc.*, 93 U.S.P.Q.2d 1774 (E.D. Mo. 2010).
- C. Departing from its earlier opinion in *Jada Toys, Inc. v. Mattel, Inc.*, 496 F.3d 974 (9th Cir. 2007), the Ninth Circuit affirmed the grant of a defense motion for summary judgment based only on the appearances of two of the parties' marks at issue. *See One Indus. v. Jim O'Neal Distrib., Inc.*, 578 F.3d 1154 (9th Cir. 2009). Although applying a full-blown likelihood of confusion analysis in other portions of its opinion, it compared the counterclaim plaintiff's stylized O'NEAL mark to the counterclaim defendant's stylized ONE mark and concluded that "[w]e agree with the district court that because these marks are 'dramatically different,' there is no likelihood of confusion." *Id.* at 1165. The counterclaim plaintiff's showings of at least some actual confusion and that its mark was "not weakened by other similar marks in the [motocross apparel] industry" did not affect the outcome. *See id.*
- D. Courts hearing cases involving diverted and altered goods have long held that, if an alteration is likely to be regarded as material by consumers, the exhaustion doctrine does not apply, and the owner of a trademark affixed to the goods can pursue injunctive relief under a likelihood-of-confusion theory. *See, e.g., Au-Tomotive Gold Inc. v. Volkswagen of Am.*, 603 F.3d 1133, 1135-39 (9th Cir. 2010) (affirming entry of summary judgment against producers of marquee license plates to which genuine, but altered, badges had been affixed); *Scentsy Inc. v. deDisse*, 93 U.S.P.Q.2d 1934, 1935 (D. Idaho 2010) (temporary restraining order against defendant's resale under plaintiff's marks of melted down and repackaged wax originally sold by plaintiff). Although affirming this general rule, the Second Circuit went a step beyond it in holding that a finding of liability for infringement may lie if the alteration of a genuine good interferes with a trademark owner's ability to control the nature and quality of the goods sold under its mark. *See Zino Davidoff SA v. CVS Corp.*, 571 F.3d 238 (2d Cir. 2009). As the court explained:

Where the alleged infringer has interfered with the trademark holder's ability to control quality, the trademark holder's claim is not defeated because of failure to show that the goods sold were defective. That is because the interference with the trademark holder's legitimate steps to control quality unreasonably subjects the trademark holder to the risk of injury to the reputation of its mark. . . . Reputation for quality, whether good or bad, becomes associated with a mark in the minds of consumers. Many consumers are willing to pay more to buy goods bearing a

mark which experience has taught the consumer represents an assurance of high quality.

Id. at 243-44.

- E. Another trademark owner challenging the resale of diverted goods prevailed, at least partially, before the Federal Circuit. In *Deere & Co. v. International Trade Commission*, 605 F.3d 1350 (Fed. Cir. 2010), a manufacturer of self-propelled forage harvesters demonstrated to the ITC's satisfaction that a group of intervenors were importing European models of the manufacturer's products into the United States. Unfortunately for the manufacturer, however, the evidence also established that the manufacturer's authorized U.S. dealers in were selling the same European models. Finding that 40% to 57% of sales by the authorized dealers were of European models, the ITC denied an exclusionary order on the ground that there could be no confusion caused by concurrent sales of identical authorized and unauthorized harvesters bearing the same mark. The Federal Circuit's interpretation of the record was different, and that interpretation resulted in it vacating the ITC's opinion: Because in its view "a total of 3.1 to 3.4% of the authorized harvesters sold in the United States were European-version harvesters," those sales were not necessarily fatal to the manufacturer's claims that "all or substantially all" of its domestic sales were of United States models. *Id.* at 1360-61. The case was therefore remanded for a determination of whether the manufacturer itself actually had contributed to any likelihood of confusion that existed in the marketplace. *See id.* at 1361-62.
- F. In *Starbucks Corp. v. Wolfe's Borough Coffee, Inc.*, 588 F.3d 97 (2d Cir. 2009), the Second Circuit rejected the defendant's argument that the fame of the plaintiffs' marks should weigh *against* a finding of liability. Although acknowledging that at least one of its past opinions had reached such a result, *see Hormel Foods Corp. v. Jim Henson Prods., Inc.*, 73 F.3d 497, 503 (2d Cir. 1996), the court suggested that the significance of its earlier holding should be limited to "the limited circumstance where the defendants' mark is a clear parody and there is widespread familiarity with the parody." *Starbucks*, 588 F.3d at 116. Because of the court's conclusion that the particular uses before it did not constitute a clear parody, the defendant's reliance on the strength of the plaintiffs' marks was misplaced. *See id.*
- G. The Eleventh Circuit and the Trademark Trial and Appeal Board took differing views of the significance of an incontestable registration to the likelihood of confusion inquiry.
1. The Eleventh Circuit's treatment of the issue arose in the context of an appeal by the owner of an incontestable registration from the grant of a defense motion for summary judgment. *See Caliber Auto. Liquidators*,

Inc. v. Premier Chrysler, Jeep, Dodge, LLC, 605 F.3d 931 (11th Cir. 2010). Among the bases for the outcome below were the alleged descriptiveness and weakness of the plaintiff's mark, and the district court's consideration of those factors led to that outcome being vacated. Invoking its past authority to the effect that "incontestability is a factor to be taken into consideration in [the] likelihood of confusion analysis," see *Dieter v. B & H Indus. of Sw. Fla.*, 880 F.2d 322, 328 (11th Cir. 1989), the appellate court noted that "[the plaintiff's mark] has attained federal incontestable status so . . . the district court erred in holding that the mark was merely descriptive, and not entitled to strong protection." *Caliber Auto. Liquidators*, 605 F.3d at 939.

2. Taking issue with the contrary Eleventh Circuit rule, the Board held that the incontestable status of a registration does not render the mark covered by it strong for purposes of the likelihood of confusion inquiry:

The registrations alone are incompetent to establish any facts with regard to the nature or extent of opposer's use and advertising of its trademarks or any reputation they enjoy or what purchasers' reactions to them may be. Accordingly, the fact that opposer's federally-registered trademark has achieved incontestable status means that it is conclusively considered to be valid, but it does not dictate that the mark is "strong" for purposes of determining likelihood of confusion.

Safer, Inc. v. OMS Invs., Inc., 94 U.S.P.Q.2d 1031, 1036 (T.T.A.B. 2009) (citations omitted).

- H. Notwithstanding volumes of controlling authority holding that, registrability is based on the "identification of goods set forth in the application regardless of what the record may reveal as to . . . the class of purchasers to which sales of the goods are directed," *Octocom Sys., Inc. v. Houston Computer Servs., Inc.*, 918 F.2d 937, 942 (Fed. Cir. 1990), the Board appeared to loosen its application of that rule in an action in *Edwards Lifesciences Corp. v. VigiLanz Corp.*, 94 U.S.P.Q.2d 1399 (T.T.A.B. 2010). There, the Board found no likelihood of confusion between the parties' marks in part on the applicant's showing that the product sold under its mark – a computer monitoring system for anticipating and detecting adverse drug events and sending alerts to healthcare providers – would be distributed through pharmacies:

Opposer argues that the similarity of the goods must be determined based on the description of the goods in the application and that because the description of goods does not specify all of the capabilities of applicant's computer systems, we should not

artificially limit applicant's goods in the likelihood of confusion analysis. We agree. However, applicant has submitted extrinsic evidence to demonstrate the meaning of its description of goods, not to restrict or limit the goods. Where, as here, applicant's description of goods provides basic information, and the goods are of a technical nature, it is entirely appropriate to consider extrinsic evidence to determine the specific meaning of the description of goods.

Id. at 1410 (footnote omitted).

VI. COUNTERFEITING

- A. In overturning a conviction for trafficking in goods bearing counterfeit marks, the Fifth Circuit provided a useful reminder that federal registration is a necessary prerequisite for criminal prosecutions under 18 U.S.C. § 2320(e)(1)(A)(ii) (2006). *See United States v. Xu*, 599 F.3d 452 (5th Cir. 2010). Because the government had failed either to introduce a copy of the registration in question into evidence or to establish its existence beyond a reasonable doubt through testimony by an employee of the registrant, the conviction could not stand. *See id.* at 454-55.
- B. The federal government was not alone in failing to prove the registered status of a mark allegedly misappropriated by counterfeiters. In *State v. Troisi*, 922 N.E.2d 957 (Ohio 2010), the Ohio Supreme Court reviewed the dismissal of a criminal complaint based on prosecutors' failure to demonstrate at trial that the mark in question was registered in the USPTO, a prerequisite for conviction under the relevant state statute. Rather than presenting to the jury a certificate of registration for the mark, the prosecution relied instead on the testimony of a Cleveland Police Department sergeant that the goods sold by the defendant bore counterfeit marks. The Court agreed with the defendant that this was an insufficient showing as a matter of law:

[The witness] testified that through his "training and experience" he was aware that the marks were registered but that he had personally never seen any documents from the United States Patent and Trademark Office showing the registration. He had never obtained official trademark records, he had never seen any of the trademarks on a registry document, and he did not know when the trademarks were issued, when they expired, or whether they had been renewed. In sum, his testimony was not sufficient to prove beyond a reasonable doubt that the marks were registered.

Id. at 959.

- C. Likewise, another court hearing a civil action alleging that the defendants had trafficked in goods bearing counterfeit imitations of the plaintiffs' marks proved receptive to a Rule 12(b)(6) motion to dismiss for failure to state a claim. *See Specht v. Google, Inc.*, 660 F. Supp. 2d 858 (N.D. Ill. 2009). The deficiency in the plaintiffs' cause of action was a lack of identity between the ANDROID DATA mark covered by their registration and the ANDROID mark allegedly used by the defendant. With the plaintiffs having failed to aver any other facts that might be a basis for liability, their counterfeiting claim "must be dismissed summarily." *Id.* at 866.
- D. On the plaintiffs' side of the counterfeiting ledger, however, the Seventh Circuit confirmed that the affixation of a licensed mark to goods produced by a manufacturer not authorized under the license can trigger the licensee's liability for the trafficking in goods bearing counterfeit marks. *See Gabbanelli Accordions & Imps., L.L.C. v. Ditta Gabbanelli Ubaldo Di Elio Gabbanelli*, 575 F.3d 693, 698 (7th Cir. 2009).

VII. PASSING OFF AND REVERSE PASSING OFF

- A. Although the Federal Circuit has held that the distinction between the two does not permit allegedly false claims of inventorship to be asserted under Section 43(a)(1)(B), *see Baden Sports, Inc. v. Molten USA, Inc.*, 556 F.3d 1300, 1307 (Fed. Cir. 2009), the Ninth Circuit failed to follow its lead. In a suit between competing manufacturers of dermatological lasers, the plaintiff objected to claims that the lead defendant was "inventor" of the plaintiff's laser. *See PhotoMedex, Inc. v. Irwin*, 601 F.3d 919 (9th Cir. 2010). Vacating the district court's grant of the defendants' motion for summary judgment, the appellate court held that "Defendants' commercial depiction of [the lead defendant] as 'inventor' of the [laser] is actionable to the extent that it misled consumers into believing that [the lead defendant] was the sole inventor or made more than his actual share of inventive contributions." *Id.* at 932. Based on record evidence that the lead defendant had participated in the design of only the laser's cooling apparatus, while others had been responsible for "the bulk" of the device, summary judgment had been inappropriate. *See id.* at 932-33.
- B. The Fourth Circuit confirmed in a dispute between competing purveyors of furniture that parties other than the manufacturers of particular goods can bring actions for reverse passing off. *See Universal Furniture Int'l Inc. v. Collezione Europa USA, Inc.*, No. 07-2180, 2010 WL 3278404 (4th Cir. Cir. Aug. 20, 2010). Although the court recognized that the first element of a reverse passing off claim was that the good in question originate with the plaintiff, that consideration did not preclude the plaintiff before it from proceeding against a competitor that had had displayed the plaintiff's goods as its own at a trade show: "[The plaintiff] is the company that markets and 'stands behind'

its furniture collections. [The plaintiff] labels the furniture with its name, distributes the furniture, and owns the copyrights in the designs.” *Id.* at *15.

VIII. DILUTION

The past year produced several doctrinally significant opinions under federal dilution law, most notably ones from the Second Circuit and the Sixth Circuit on the proper interpretation of the statutory factors for evaluating claims of likely dilution under Section 43(c) of the Lanham Act, 15 U.S.C. § 1125(c) (2006).

A. The Second Circuit opinion came in *Starbucks Corp. v. Wolfe’s Borough Coffee, Inc.*, 588 F.3d 97 (2d Cir. 2009). The plaintiffs’ mark was STARBUCKS, standing alone and with a logo, for coffee and retail coffee sales, which the plaintiffs unsuccessfully asserted in a bench trial was likely to be diluted under Section 43(c) by the defendant’s use with a stylized bear design of CHARBUCKS BLEND and MISTER CHARBUCKS in connection with what the defendant described as a “dark roasted blend” of coffee. On appeal, the Second Circuit affirmed the district court’s finding of no likelihood of dilution by tarnishment but vacated that court’s finding that dilution by blurring was unlikely.

1. As to dilution by tarnishment, the plaintiffs objected to the alleged association of their marks with what they characterized as “bitter, over-roasted coffee,” *quoted in id.* at 110, relying upon survey evidence that (1) 30.5% of respondents associated the defendant’s marks with their own and (2) 62.5% of those respondents “indicated that they would have a negative impression” of a coffee sold under the defendant’s CHARBUCKS mark. *Quoted in id.* The Second Circuit was unpersuaded, and it therefore affirmed the district court’s finding, after a bench trial, that the defendant’s uses were unlikely to tarnish the plaintiffs’ marks:

To the extent [the plaintiffs] rel[y] on the survey, a mere association between “Charbucks” and “Starbucks,” coupled with a negative impression of the name “Charbucks,” is insufficient to establish a likelihood of dilution by tarnishment. That a consumer may associate a negative-sounding junior mark with a famous mark says little of whether the consumer views the junior mark as harming the reputation of the famous mark. The more relevant question, for purposes of tarnishment, would have been how a hypothetical coffee named either “Mister Charbucks” or “Charbucks Blend” would affect the positive impressions about the coffee sold by [the plaintiffs]. We will not assume that a purportedly negative-sounding

junior mark will likely harm the reputation of the famous mark by mere association when the survey conducted by the party claiming dilution could have easily enlightened us on the matter. Indeed, it may even have been that “Charbucks” would strengthen the positive impressions of Starbucks because it brings to the attention of consumers that the “Char” is absent in “Star”bucks, and, therefore, of the two “bucks,” Starbucks is the “un-charred” and more appealing product. Juxtaposition may bring to light more appealing aspects of a name that otherwise would not have been brought to the attention of ordinary observers.

Id. at 110-11. The defendant’s marketing of its coffee as a “[v]ery high quality” alternative to that of the plaintiffs was further evidence supporting the district court’s finding of no likelihood of tarnishment. *Id.* at 111.

2. The defendant’s initial victory on the blurring front was based on three findings in particular that the plaintiffs targeted on appeal: (1) the parties’ marks were not substantially similar, something that the district court considered “alone . . . sufficient to defeat [the plaintiff’s] blurring claim,” *quoted in id.* at 107; (2) the defendant had not intended to create an actual association with the plaintiff; and (3) there was an absence of evidence of an actual association between the parties’ marks. Like the plaintiffs, the Second Circuit took issue with each of these findings.
 - a. As to the first, the appellate court rejected the proposition that substantial similarity between the parties’ marks was a threshold requirement for a finding that blurring was likely under Section 43(c):

[O]ne of the six statutory factors informing the inquiry as to whether the allegedly diluting mark “impairs the distinctiveness of the famous mark” is “[t]he *degree* of similarity between the mark or trade name and the famous mark.” Consideration of a “degree” of similarity as a factor in determining the likelihood of dilution does not lend itself to a requirement that the similarity between the subject marks must be “substantial” for a dilution claim to succeed. Moreover, were we to adhere to a substantial similarity requirement for all dilution by blurring claims, the significance of the remaining five factors would be materially dimin-

ished because they would have no relevance unless the degree of similarity between the marks are initially determined to be “substantial.” Such requirement of substantial similarity is at odds with the federal dilution statute, which lists “degree of similarity” as *one* of several factors in determining blurring.

Id. at 108 (quoting 15 U.S.C. § 1125(c)(2)(B) (2006)) (citations and footnote omitted). Thus, although it agreed with the defendant the parties’ marks shared only a “minimal similarity,” *id.* at 107, the appellate court therefore held with respect to the plaintiffs’ Section 43(c) claim (but not their corresponding claim under the New York state dilution statute) that “the District Court erred to the extent it focused on the absence of ‘substantial similarity’ between the [parties’ marks] to dispose of [the plaintiffs’] dilution claim.” *Id.* at 109.

- b. The second basis of the defendant’s victory fared no better. Challenging the district court’s determination that the defendant had not acted in bad faith within the meaning of Section 43(c)(2)(B)(v), the plaintiffs successfully argued that that section did not require a showing of bad faith; rather, a mere intent to associate in and of itself should weigh in favor of a finding of liability. As the Second Circuit explained, “[t]he determination of an ‘intent to associate’ . . . does not require the additional consideration of whether bad faith corresponded with that intent. . . . [W]here, as here, the allegedly diluting mark was created with an intent to associate with the famous mark, this factor favors a finding of a likelihood of dilution.” *Id.*
- c. Finally, the appellate court distinguished between the concepts of actual confusion and actual association in rejecting the district court’s finding that the plaintiffs had failed to prove the latter. On this issue, the plaintiffs had introduced the results of a telephone survey, which, although yielding only a 3.1% rate of actual confusion, nevertheless showed that 30.5% of respondents had responded “Starbucks” when asked “[w]hat is the first thing that comes to mind when you hear the name ‘Charbucks.’” *Quoted in id.* (alteration in original). Concluding that the district court had improperly dismissed these results as establishing the absence of actual confusion, the Second Circuit held “[t]his was error, as the absence of actual or even a likelihood of confusion does not undermine evidence of trademark dilution.” *Id.*

3. That left the issue of whether the defendant's marks qualified for the parody exception recognized by Section 43(c)(3), which provides that a challenged use will not be actionable if it is one "other than as a designation of source for the [defendant's] own goods and services" for the purpose of "identifying and parodying, criticizing, or commenting upon the famous mark owner or the goods or services of the famous mark owner." 15 U.S.C. § 1125(c)(3)(A) (2006). That the defendant's uses clearly were trademark ones might well have rendered them eligible for the exclusion, but the court chose not to address that issue. Instead, it held that the defendant's uses were "at most, a subtle satire" of the plaintiffs' marks. *Starbucks*, 588 F.3d at 113. In particular, they were not promoted as satires of, or commentaries on, the plaintiff; instead, they served as a "beacon" identifying the defendant as a competitor of the plaintiffs. *See id.* Under these circumstances, "[the defendant's] incantation of parody does nothing to shield it from [the plaintiffs'] dilution claim in this case." *Id.*
- B. The Sixth Circuit opinion came in *V Secret Catalogue, Inc. v. Moseley*, 605 F.3d 382 (6th Cir. 2010), the latest chapter in the long-running litigation brought by the owners of the various iterations of the VICTORIA'S SECRET mark against Victor and Kathy Moseley, a husband-and-wife team operating a sex shop under the VICTOR'S LITTLE SECRET mark. By the time the case reached the Sixth Circuit on appeal for the second time, the sole issue presented was whether the defendants' mark was likely to dilute the distinctiveness of the plaintiffs' marks under a tarnishment theory. The appellate court affirmed a finding of liability below in a 2-1 decision producing three opinions, but did so in a manner that altered the parties' respective burdens.
1. The lead opinion initially focused on the effect of the 2006 revisions to Section 43(c), which were intended to abrogate the Supreme Court's holding in an earlier stage of the case that the then-extant version of that statute required a showing of likely, rather than actual dilution. *See Moseley v. V Secret Catalogue, Inc.*, 537 U.S. 418 (2003). In particular, the lead opinion identified language in the legislative history of the revised Section 43(c) reciting that "[t]he *Moseley* standard creates an undue burden for trademark holders who contest diluting uses and should be revised." *Moseley*, 605 F.3d at 387 (quoting H.R. REP. NO. 109-23, at 5 (2006), reprinted in 2006 U.S.C.C.A.N. 1091, 1092)). Referring to the examples of potentially actionable tarnishing uses set forth in the Restatement, as well as the unfavorable track record of defendants such as the Moseleys in dilution litigation, that opinion then intoned:

The phrase "likely to cause dilution" used in the new statute significantly changes the meaning of the law from

“causes actual harm” under the pre-existing law. . . . It is important to note . . . that the Committee Report . . . seeks to reduce the “burden” of evidentiary production on the trademark holder. The burden-of-proof problem, the developing case law, and the Restatement (Third) of Trademarks in § 25 (particularly subsection g) should now be interpreted, we think, to create a kind of rebuttable presumption, or at least a very strong inference, that a new mark used to sell sex-related products is likely to tarnish a famous mark if there is a clear semantic association between the two.

. . . [T]he new law seems designed to protect trademarks from any unfavorable sexual associations. Thus, any new mark with a lewd or offensive-to-some sexual association raises a strong inference of tarnishment. The inference must be overcome by evidence that rebuts the probability that some consumers will find the new mark both offensive and harmful to the reputation and the favorable symbolism of the famous mark.

Id. at 388-89 (citation omitted).

2. A concurring opinion from the other judge voting to affirm took issue with the lead opinion’s reference to a “rebuttable presumption,” *see id.* at 390 (Gibbons, J., concurring), but there was no apparent disagreement between the two judges in the majority on the significance of the sex-related nature of the defendants’ business:

This *res ipsa loquitur*-like effect is not conclusive but places on the owner of the new mark the burden of coming forward with evidence that there is no likelihood or probability of tarnishment. The evidence could be in the form of expert testimony or surveys or polls or customer testimony.

Id. at 388 (footnote omitted).

3. Applying this new standard to the record evidence and testimony before it, the author of the lead opinion, and apparently that of the concurring opinion as well, declined to disturb the district court’s entry of summary judgment in the plaintiffs’ favor:

In the present case, the Moseleys have had two opportunities in the District Court to offer evidence that there is no real probability of tarnishment and have not done so.

They did not offer at oral argument any suggestion that they could make such a showing or wanted the case remanded for that purpose. The fact that Congress was dissatisfied with the Moseley result and the Moseley standard of liability, as well as apparently the Moseley burden of proof, supports the view of Victoria's Secret that the present record-in the eyes of the legislative branch-shows a likelihood of tarnishment. Without evidence to the contrary or a persuasive defensive theory that rebuts the presumption, the defendants have given us no basis to reverse the judgment of the District Court. . . . We agree that the tarnishing effect of the Moseleys' mark on the senior mark is somewhat speculative, but we have no evidence to overcome the strong inference created by the case law, the Restatement, and Congressional dissatisfaction with the burden of proof used in this case in the Supreme Court.

Id. at 388-89.

- C. In a less doctrinally significant federal appellate opinion, the Ninth Circuit affirmed a finding of likely dilution by blurring as a matter of law. *See Visa Int'l Serv. Ass'n v. JSL Corp.*, No. 08-15206, 2010 WL 2559003 (9th Cir. June 28, 2010). The plaintiff's mark was VISA, used in connection with various financial services, including credit card services, while the defendant used the EVISA mark for a "multilingual education and information business," which apparently focused on travel-related issues and which was accessible at the url www. *Quoted in id.* at *1. The district court entered summary judgment on the plaintiff's Section 43(c) claims, and the Ninth Circuit declined to disturb this outcome on appeal. To begin with, it held, "[t]he marks here are effectively identical; the only difference is the prefix 'e,' which is commonly used to refer to the electronic or online version of a brand. That prefix does no more to distinguish the two marks than would the words 'Corp.' or 'Inc. . . .'" *Id.* at *2. The court then took aim at the argument that the defendant was within its rights to use the EVISA mark because of the connection between the mark's salient element and the dictionary definition of "visa":

[The defendant's] allusions to the dictionary definition of the word visa do not change the fact that [the defendant] has created a novel meaning for the word: to identify a "multilingual education and information business." This multiplication of meanings is the essence of dilution by blurring. Use of the word "visa" to refer to travel visas is permissible because it doesn't have this effect; the word elicits only the standard dictionary definition. Use of the word visa in a trademark to refer to a good or service

other than a travel visa, as in this case, undoubtedly does have this effect; the word becomes associated with two products, rather than one. This is true even when use of the word also gestures at the word's dictionary definition.

Id. at *3. The court therefore affirmed the district court's grant of the plaintiff's motion for summary judgment without considering the defendant's objections to survey evidence adduced by the plaintiff below. As it explained, "a plaintiff seeking to establish a likelihood of dilution is not required to go to the expense of producing expert testimony or market surveys; it may rely entirely on the characteristics of the marks at issue." *Id.* at *2.

- D. Rejecting a federal dilution cause of action to protect an incontestably registered dripping wax design applied to the necks of bourbon bottles, one Sixth Circuit district court offered the following explanation of the high standard enacted by Congress as part of the 2006 revisions to Section 43(c):

Whether a mark is "famous" is the threshold issue in a trademark dilution claim. "Fame" is a lexicon of art particular to trademark jurisprudence; it is not at all the same as asking "the man on the street" whether a name, mark or product is "famous." It is not proven through the words of trade publication articles declaring it so. Rather, under the TDRA, a mark is famous if it "is widely recognized by the general consuming public of the United States as a designation of source of the goods or services of the mark's owner." The term "general consuming public," added in a 2006 revision to the Act, appears to have eliminated any possibility that niche fame—a type of fame recognized prior to 2006—is a valid basis for finding a mark famous. The revision also indicates that Congress intended for dilution to apply only to a small category of extremely strong marks.

Maker's Mark Distillery, Inc. v. Diageo N. Am, Inc., No. 3:03-CV-93-H, 2010 WL 1407325, at *16 (W.D. Ky. Apr. 2, 2010) (quoting 15 U.S.C. § 1125(c)(2)(A) (2006)) (footnotes and citations omitted).

- E. In *Citigroup Inc. v. Capital City Bank Group Inc.*, 94 U.S.P.Q.2d 1645 (T.T.A.B. 2010), the Board confirmed that the relevant date for proving mark fame for purposes of a dilution-based challenge to an application is the date of the applicant's first use of the applied-for mark, and not the application's filing date. Thus, although the opposer before the Board was otherwise able to meet the high standard for proving mark fame, its dilution claim was dismissed after trial. *See id.* at 1649-50.

IX. CYBERSQUATTING

- A. Although the existence or nonexistence of a bad faith intent to profit is a factual issue that does not necessarily lend itself to resolution as a matter of law, the Ninth Circuit affirmed entry of summary judgment against an accused cybersquatter. *See Lahoti v. Vericheck, Inc.*, 586 F.3d 1190 (9th Cir. 2009). Chief among the considerations weighing in favor of this outcome were the domain owner's failure to use the domain in connection with a bona fide offering of goods and services, his request for \$72,500 to assign the domain to the plaintiff, his lack of rights to the salient component of the domain, and the fact that he was "a repeat cybersquatter who has registered hundreds of domain names resembling distinctive or famous trademarks and has been admonished by judicial bodies for doing so." *Id.* at 1202-03.
- B. Another case presented an even stronger case for a finding of liability under the ACPA as a matter of law. *See Webadviso v. Bank of Am. Corp.*, 93 U.S.P.Q.2d 1932 (S.D.N.Y. 2010). Having affirmatively pleaded in his declaratory judgment complaint that he was a "domainer" who sought to "acquire high value domain names and park them with domain parking service providers to generate pay-per-click revenue," the plaintiff was in a uniquely poor position to resist the defendants' summary judgment motion, and his offer to sell the challenged domain for "near 7 figures" added more than a few inches to his ACPA grave. *Quoted in id.* at 1933. Under these circumstances, the court had little difficulty ordering the same relief as that entered in an earlier in a UDRP proceeding between the parties. *See id.* at 1933-34.
- C. One court was confronted with an apparent question of first impression – in the case law, if not in the United States Code – namely, whether the domain name registrant is a necessary party to an *in personam* action under the ACPA. *See Citadel Inv. Group, L.L.C. v. Citadel Capital Co.*, 699 F. Supp. 2d 303 (D.D.C. 2010). The named defendant was merely the registrant's licensee, which led it to move to dismiss the action for failure to join the registrant himself. The court was unpersuaded, noting that Section 43(d)(1)(D), 15 U.S.C. § 1125(d)(1)(D) (2006), expressly authorizes suits against both "the domain name registrant and that registrant's authorized licensee." *See* 699 F. Supp. 2d at 317. Moreover, the court held, Rule 19 of the Federal Rules of Civil Procedure gave it the discretion to allow the suit even without the registrant's participation:

If plaintiffs prevail on this claim, they potentially can obtain both monetary and injunctive relief against [the registrant's licensee], which would compensate plaintiffs for [the licensee's] use of the infringing domain name and terminate [the licensee's] future use of the domain name. Because this remedy would adequately address [the licensee's] infringing use, and would have

no effect on [the registrant's] rights to the domain name, the Court concludes that [the licensee] has not carried its burden of demonstrating that dismissal of the cybersquatting claim is appropriate.

Citadel Inv. Group, 699 F. Supp. 2d at 318.

X. FALSE ADVERTISING

- A. Advertising can be actionable under Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a) (2006), under one of two theories: (1) the advertising is literally false or, alternatively, the advertising is literally true but false by implication. In a case arising from a challenge by Tiffany to sales of goods bearing counterfeit imitations of Tiffany's marks on eBay, *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93 (2d Cir. 2010), the Second Circuit took an unconventional approach to the distinction between the two. The record evidence and testimony established that: (1) those sales were occurring; (2) eBay had "generalized" knowledge of them; and (3) "eBay advertised the sale of Tiffany goods on its website in various ways," including hyperlinks that used the Tiffany name, as well as through its purchases of advertising from the operators of search engines. *See id.* at 113. As to Tiffany's claim of literal falsity – and despite the undisputed fact that at least some of goods in question were *not* genuine – the Second Circuit agreed with the district court that "eBay's advertisements were not literally false inasmuch as genuine Tiffany merchandise was offered for sale through eBay's website." *Id.* Tiffany's claims that eBay's advertising was false by implication, however, fared better:

[T]he district court reasoned that if eBay's advertisements were misleading, that was only because the sellers of counterfeits made them so by offering inauthentic Tiffany goods. Again, this consideration is relevant to Tiffany's direct infringement claim, but less relevant, if relevant at all, here. It is true that eBay did not itself sell counterfeit Tiffany goods; only the fraudulent vendors did But eBay did affirmatively advertise the goods sold through its site as Tiffany merchandise. The law requires us to hold eBay accountable for the words that it chose insofar as they misled or confused consumers.

Id. at 114. A remand therefore was appropriate "so that the district court, with its greater familiarity with the evidence, can reconsider the claim." *Id.*

- B. Defendants increasingly have met allegations of false advertising with the argument that they have engaged in nothing more than nonactionable puffery, and this argument has met with some success on motions for summary judgment in recent years. For example, the challenged statement in one case was

the claim by a medical practice that it was “a premier facility in the Southeast for the treatment of allergy, asthma, and immunologic diseases.” *See Atlanta Allergy & Asthma Clinic, P.A. v. Allergy & Asthma of Atlanta, LLC*, 685 F. Supp. 2d 1360, 1380 (N.D. Ga. 2010). Apparently accepting the defendants’ argument that only the word “premier” in their tagline could be the basis for a finding of falsity, the court noted in a cursory analysis that “Defendants argue that such a word is vague and subjective and constitutes non-actionable puffing. The Court agrees.” *Id.*

- C. Different facts produced a different result in another case. *See PhotoMedex, Inc. v. Irwin*, 601 F.3d 919 (9th Cir. 2010). In a dispute between two manufacturers of dermatological lasers, the plaintiff claimed that the defendants falsely had represented at a trade show that their laser would be available for purchase within a few months when, in fact, the first unit was not shipped until more than a year after that projected introduction date. Because it considered the defendants’ predictions of the release date of their device to be mere statements of opinion regarding future events, the district court granted the defendants’ motion for summary judgment, only to have the Ninth Circuit vacate this determination. According to the appellate court:

An honest or sincere statement of belief about a future event is not actionable, but a statement of known at that time by the speaker to be false, or a statement by a speaker who lacks a good faith belief in the truth of the statement, may constitute an actionable misrepresentation. In this instance, Defendants may be liable for misrepresentation if they said that [their laser] would be available in August 2003 but knew that it would not or could not actually be available until a substantially later date.

Id. at 931 (citations omitted). Largely on the basis of testimony by the plaintiff’s expert witness that the “rudimentary documentation of internal laser research and development” produced by the defendants demonstrated their knowledge of the falsity of the announced release date, the court therefore remanded the action to the district court for further proceedings. *See id.* at 932.

- D. In the same case, and taking an approach to Section 43(a) at odds with that of the Federal Circuit, *see Baden Sports, Inc. v. Molten USA, Inc.*, 556 F.3d 1300 (Fed. Cir.), *cert. denied*, 130 S. Ct. 111 (2009), the Ninth Circuit allowed the plaintiff to assert a violation of Section 43(a)(1)(B), *id.* § 1125(a)(1)(B), based on the defendants’ allegedly false representation that the lead defendant was an inventor of the laser in question. *See Photomedex, Inc. v. Irwin*, 601 F.3d 919, 932 (9th Cir. 2010).

- E. Although false advertising-based challenges to the use of particular trademarks are not unheard of, they are rarely successful. This year's example of such a result came in the latest installment of the longstanding litigation over the defendant's use of the HAVANA CLUB mark for rum not made in Cuba, which the plaintiff alleged constituted a false representation of the rum's geographic origin in violation of Section 43(a)(1)(B), 15 U.S.C. § 1125(a)(1)(B) (2006), particularly in light of certain "Cuban Heritage" statements found in the defendant's advertising. See *Pernod Ricard USA LLC v. Bacardi U.S.A., Inc.*, No. 06-505-SLR, 2010 WL 1348241 (D. Del. Apr. 6, 2010). As framed by the court after a bench trial, "[t]he case at bar presents a unique question: is 'geographic origin' under § 43(a)(1)(B) more akin to 'heritage' or to the 'source of production'?" *Id.* at *5. Of this distinction, it explained that:

The focus of "origin" in the context of § 43(a)(1)(A) is on the manufacturer or producer; applying that focus to the interpretation of "geographical origin," that term would implicate the place of manufacture, rather than the source of that product's recipe or its heritage. It is plausible that a product's history is an "idea, concept or communication" embodied in the goods rather than a geographical designation. It is also plausible that "geographical origin" is broad enough to encompass some aspect of a good's history.

Id. at *7 (citation omitted). Eventually, however, the Court found that the plaintiff was not entitled to prevail under either theory. With respect to the plaintiff's geographic origin argument, the court held that "labeling cannot be deceptive as to geographic origin where it contains a truthful disclosure of the product's source." *Id.* The defendant's placement of such statements as "Puerto Rico Rum" and "Crafted in Puerto Rico" "on both sides of its bottle, rather prominently, and following its use of the Havana Club name" therefore precluded a finding of liability under that theory, regardless of any survey evidence of confusion the plaintiff might have adduced. *Id.* Moreover, and as to the second possible basis for liability, "[t]he record clearly demonstrates that Havana Club rum has a Cuban heritage and, therefore, depicting such a heritage is not deceptive." *Id.* at *8. Although, following the relocation from Cuba to Puerto Rico by the defendant's predecessor, the defendant's rum had begun to incorporate certain non-Cuban ingredients, the court rejected the plaintiff's claim that this reformulation rendered the defendant's heritage claims false. On the contrary, "it is the court's conclusion that defendant's formula and manufacturing alterations do not annul the Cuban heritage of defendant's Havana Club rum, which is derived primarily from the original recipe." *Id.* at *9.

XI. FALSE ENDORSEMENT AND RIGHT OF PUBLICITY

- A. One district court confronted the argument that the federal cause of action for celebrity false endorsement under Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a) (2006), was available only in challenges to the use of celebrities' likenesses in advertising for products, rather than to the use of those likenesses on products in and of themselves. *See Fifty-Six Hope Rd. Music, Ltd. v. A.V.E.L.A., Inc.*, 688 F. Supp. 2d 1148 (D. Nev. 2010). The court was unconvinced and denied a defense motion for summary judgment grounded in that theory. *See id.* at 1167-68.
- B. A typical obstacle faced by plaintiffs asserting state law causes of action is Section 301 of the Copyright Act, 17 U.S.C. § 301 (2006), which provides for the preemption of state law claims if (1) the subject of the claims is within the exclusive subject matter of the Copyright Act and (2) the rights to be vindicated by the claims are equivalent to any of the exclusive rights within the general scope of the Act. There are limits to the scope of Section 301, however, as the NFL discovered in a class action brought in the District of Minnesota against the league by a group of former players featured in archival footage that had been recycled into promotional videos. *See Dryer v. Nat'l Football League*, 689 F. Supp. 2d 1113 (D. Minn. 2010). Among the causes of action advanced by the plaintiffs were violations of their rights of publicity, which the NFL argued in a motion to dismiss was preempted by Section 301. This argument fell on deaf judicial ears. As to the first prong of the relevant analysis:

The NFL contends that Plaintiffs' claims fail because the work at issue, namely the video productions, are within the subject matter of copyright. While there may be no doubt that the videos the NFL makes are copyrightable, Plaintiffs have alleged that the "work" at issue is not the videos themselves, but rather Plaintiffs' own identities. "The 'work' that is the subject of the right of publicity is the persona, *i.e.*, the name and likeness of a celebrity or other individual. A persona can hardly be said to constitute a 'writing' or an 'author' within the meaning of the Copyright Clause of the Constitution." Thus, the work at issue is not within the subject matter of copyright.

Id. at 1121 (quoting 1 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright* § 1.01[B][1][c], at 1-30). Moreover, as to the second prong:

Nor is the right of publicity equivalent to any of the exclusive rights in the Copyright Act. As described by the Eighth Circuit, the right of publicity protects "the right of an individual to reap the rewards of his or her endeavors." Copyright, on the

other hand, protects the author's exclusive right to reproduce, distribute, perform, or display expressive works. The right of publicity thus protects very different rights than does copyright.

Id. (quoting *C.B.C. Distrib. & Mktg., Inc. v. Major League Baseball Advanced Media, L.P.*, 505 F.3d 818 (8th Cir. 2007)) (citation omitted).

XII. SECONDARY LIABILITY

Unfair competition law recognizes two types of secondary liability, contributory infringement and vicarious liability.

- A. The most notable opinion of the year bearing on secondary liability addressed only claims of contributory infringement, but it was a significant and closely-watched one: *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93 (2d Cir. 2010).
1. The case had its origins in Tiffany's belief – substantiated in varying degrees by the factual record in the case – that much of the TIFFANY-branded merchandise being sold on the Internet auction site eBay in fact bore counterfeit imitations of Tiffany's marks. Tiffany's showing at trial included the results of two "buying programs" conducted in 2004 and 2005, which suggested that 73.1% and 75.5% of the putative Tiffany merchandise sold by eBay's vendors during those respective years was nonlegitimate. Although the district court criticized certain aspects of the buying programs, it nevertheless credited Tiffany's argument that a "significant portion" of the goods in question were fake and that eBay was aware of the dubious status of at least some of them. Nevertheless, in substantial part because some of the goods *were* genuine and because eBay had taken a number of steps to reduce the number of counterfeit goods sold on its site, *see* 600 F.3d at 98-100, the district court found after a bench trial that eBay was not liable for the sale of goods that were *not* genuine and that had been sold by eBay's third-part vendors. *See Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463 (S.D.N.Y. 2008), *aff'd in part and vacated in part*, 600 F.3d 93 (2d Cir. 2010).
 2. The Second Circuit affirmed. Reviewing Tiffany's claims of contributory infringement, the court expressly declined to resolve the issue of whether the Supreme Court's 1982 decision in *Inwood Laboratories v. Ives Laboratories*, 456 U.S. 844 (1982), applied in the service mark, as well as trademark, context. Nevertheless, eBay's failure to address the issue on appeal led the court to apply *Inwood* anyway:

[W]hen applying *Inwood* to service providers, there are two ways in which a defendant may become contri-

butorially liable for the infringing conduct of another: first, if the service provider “intentionally induces another to infringe a trademark,” and second, if the service provider “continues to supply its [service] to one whom it knows or has reason to know is engaging in trademark infringement.”

Tiffany, 600 F.3d at 106 (quoting *Inwood*, 456 U.S. at 854).

3. Tiffany asserted contributory infringement only under the second of these theories, but it was unsuccessful even as to that one, as the Second Circuit held that eBay’s *generalized* knowledge of sales of goods bearing counterfeit marks on eBay’s site was not a substitute for its *specific* knowledge that particular goods were counterfeit. As the appellate court explained, “[f]or contributory trademark infringement liability to lie, a service provider must have more than a general knowledge or reason to know that its service is being used to sell counterfeit goods. Some contemporary knowledge of which particular listings are infringing or will infringe in the future is necessary.” *Id.* at 107. Under an application of this test, Tiffany’s factual showing fell short:

Tiffany’s demand letters and Buying Programs did not identify particular sellers who Tiffany thought were then offering or would offer counterfeit goods. And although the [take-down notices] and buyer complaints gave eBay reason to know that certain sellers had been selling counterfeits, those sellers’ listings were removed and repeat offenders were suspended from the eBay site. Thus Tiffany failed to demonstrate that eBay was supplying its service to individuals who it knew or had reason to know were selling counterfeit Tiffany goods.

Id. at 109.

4. The court was equally unsympathetic to Tiffany’s claim that eBay had been willfully blind to the unlawful sales taking place on its site. It was certainly true, as the court acknowledged, that “[a] service provider is not . . . permitted willful blindness. When it has reason to suspect that users of its service are infringing a protected mark, it may not shield itself from learning of the particular infringing transactions by looking the other way.” *Id.* On this issue as well, however, Tiffany failed to carry its burden; rather, “eBay’s efforts to combat counterfeiting far exceeded the efforts made by . . . defendants” in cases in which willful blindness had been found. *Id.* at 110 n.16. Thus, the district court’s

factual finding that eBay was not contributorially liable under this theory also passed appellate scrutiny. *See id.* at 109.

- B. In contrast to the attention given by the Second Circuit to the merits of the contributory infringement claim before it, another court was able to dodge the issue after concluding on a defense Rule 12(b)(6) motion that the complaint in its case had failed to aver the existence of secondary liability, much less the existence of facts that might support it. *See Specht v. Google, Inc.*, 660 F. Supp. 2d 858, 865 (N.D. Ill. 2009).

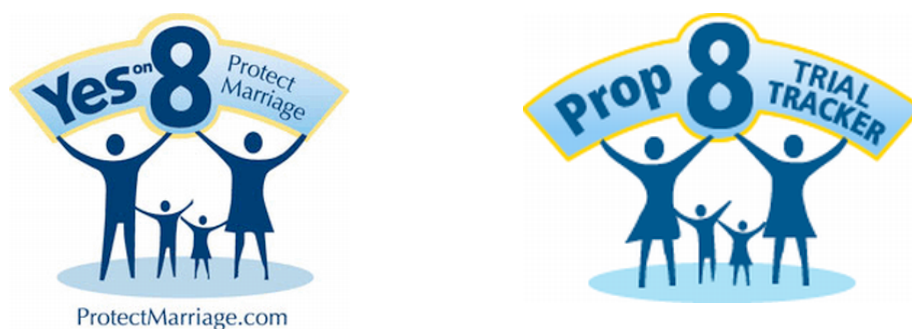
XIII. THE FIRST AMENDMENT

- A. At least one claim to First Amendment protection succeeded at the state court level. In *Commonwealth v. Omar*, 981 A.2d 179 (Pa. 2009), the Pennsylvania Supreme Court invalidated that state's criminal anticounterfeiting statute as unconstitutionally broad. As the Court explained:

Although the Commonwealth argues that the statute only prohibits the use of "counterfeit marks" when the user intends to sell or distribute the product deceptively, the statute defines "counterfeit mark" broadly to include "[a]ny unauthorized reproduction or copy of intellectual property," where "intellectual property" is defined by the statute to include "[a]ny trademark, service mark, trade name, label, *term*, device, design or *word* adopted or used by a person to identify that person's goods or services." Therefore, any unauthorized use of a "term" or "word" that is engaged by another person to identify that person's goods or services is a "counterfeit mark." Accordingly, the definition of intellectual property criminalizes not only the use of the trademark, which would include the stylized logo or name but also the mere word, without regard to font or color. When the relevant definitions are inserted into the definition of the offense, the statute criminalizes the use of any items bearing an unauthorized reproduction of terms or words used by a person to identify that person's goods or services. . . . [T]he statute, therefore, unconstitutionally prohibits protected speech, including the use of words on a sign praising or protesting any entity with a trademarked name, including Penn State. Taken to the extreme, even our use of the words "Nike" and "Penn State" in this opinion without the permission of the company or the university would fall under the current definition of a counterfeit mark. Clearly, the statute prohibits a substantial amount of protected speech.

Id. at 186-87 (citations omitted).

- B. The First Amendment was also successfully invoked in civil cases. In *Protectmarriage.com – Yes on 8, a Project of California Renewal v. Courage Campaign*, 680 F. Supp. 2d 1225 (E.D. Cal. 2010), the plaintiff was a non-profit organization opposed to same-sex marriage in California, which used a logo consisting of the words “Yes on 8 Protect Marriage” and four stylized human figures, two adults and two children. The defendants were on the opposite side of the issue and used a modified version of the plaintiff’s logo for a website that tracked developments in a lawsuit challenging the constitutionality of California’s ban on same-sex marriage. As the district court characterized the parties’ marks, *id.* at 1227, “plaintiff’s logo depicts the ‘parent’ figures in pants and a dress, [but] both ‘parent’ figures in defendant’s logo wear dresses, suggesting same-sex parents”:



The plaintiff sought a temporary restraining order against the defendants’ use, but the court held that First Amendment considerations trumped the plaintiff’s objections. Citing to a test having its origins in *Rogers v. Grimaldi*, 875 F.2d 994 (2d Cir. 1989), the court held as an initial matter that challenged marks used in connection with artistic works were not actionable under the Lanham Act unless they had no artistic relevance whatsoever to the underlying artistic works or, if relevant, they were explicitly misleading as to the source or content of the works. *Protectmarriage.com*, 680 F. Supp. 2d at 1229. Moreover, with respect to the particular challenged mark at issue, the court held that:

In this case, the [defendant’s] logo itself is artistic. Moreover, the broader website, while perhaps not artistic, is undeniably expressive of a political idea, and both political and artistic expression are protected by the First Amendment. Defendant’s [sic] use of the mark has relevance to the expressive message, namely, support for homosexual marriages, and specifically, opposition to recent California efforts to limit the right to such marriages. This support is expressed by the modification of the “father” figure in the original mark to depict a second “mother.” Further, the mark does not explicitly mislead as to the source of the work. Any potential for confusion or misdirection is obviated by the images and text that uniformly accompany defen-

dant's use of the mark, namely, photos of homosexual couples together with text explicitly endorsing homosexual marriage.

Id. (citations omitted).

- C. Another court's application of First Amendment principles was so aggressive that a portion of the plaintiff's claims failed to survive a motion for judgment on the pleadings. *See Armstrong v. Eagle Rock Entm't*, 655 F. Supp. 2d 779 (E.D. Mich. 2009). The plaintiff was a jazz musician who objected to the use of his image on the sleeve and in the liner notes of a DVD that memorialized a 1974 festival in which he performed. Although the plaintiff asserted a variety of theories underlying his claims, they generally turned on the appearance on the DVD's cover of the words "Now, with the consent of the festival and the artists, [the defendant] is making these concerts available on DVD for the first time." *Quoted in id.* at 791. The plaintiff alleged that, together with the use of his image, the words created the impression that he had endorsed the DVD, but the court was unpersuaded. For one thing, it found, "[m]ost people understand that the pictures on the outside of a DVD cover are ordinarily meant to convey something about the content, not necessarily to demonstrate endorsement." *Id.* at 791. More importantly, however, not only did the particular performance in question have "musical, cultural, and historical significance to . . . fans [of the plaintiff's band] and jazz fans more generally," but "the DVD has entertainment value and represents the artistic expression of the videographers, layout artists, and others who lend their talents and artistic expressions to the making of a concert recording." *Id.* at 792. Accordingly, "the relatively slight public interest in avoiding confusion in this instance is not outweighed by the greater public interest in free expression of [the defendant's] artistic work." *Id.*
- D. These holdings notwithstanding, however, not all claims to First Amendment protection succeeded, especially at the pleadings stage of actions. Thus, for example, the Ninth Circuit declined to disturb a district court's refusal to dismiss Paris Hilton's California right of publicity challenge to a greeting card that superimposed her face onto a cartoon body wearing a waitress's uniform and used her "That's hot" catchphrase. *See Hilton v. Hallmark Cards*, 599 F.3d 894, 911-12 (9th Cir. 2010). The defendant claimed that its card was a protected "transformative" use of Hilton's persona, but Hilton successfully called the court's attention to an episode of her reality television show, *The Simple Life*, in which she had served as a waitress. Noting differences between the defendant's portrayal of Hilton on the card and on the show, the court nevertheless concluded that her complaint averred the minimal merit necessary to defeat the defendant's free speech-based motion to dismiss. *See id.* at 910.

- E. Some courts did not merely defer resolution of claims to First Amendment protection, they rejected those claims as a matter of law. These included the Second Circuit district court hearing Pfizer's highly visible suit against the owners of a decommissioned missile with the words "Viva Viagra" painted on its sides. *See Pfizer Inc. v. Sachs*, 652 F. Supp. 2d 512 (S.D.N.Y. 2010). The commercial nature of the defendants' conduct – which included towing the missile to Pfizer's headquarters – sealed their fate:

Defendants used the Viagra Marks to bolster their advertising business. Defendants' midday sojourn with a missile to Pfizer's world headquarters traded on the fame and reputation of Viagra. At that time, Defendants advertised their own services while displaying the Viagra-branded missile-using the Viagra Marks for their own commercial gain. . . . Defendants' argument that their use of the Marks was a protected statement about erectile dysfunction is without merit. Even if that message could be teased from Defendants' use, they have not shown that the Viagra Marks were necessary to make the point. Accordingly, Defendants' use of the Viagra Marks is not protected by the First Amendment.

Id. at 524-25.

XIV. DEFENSES

A. Laches

1. One court rejected the very applicability of the laches defense in challenges to registrations that have passed their fifth anniversary of issuance but that nevertheless still may be cancelled "at any time" on the grounds set forth in Section 14(3) of the Lanham Act, 15 U.S.C. § 1064(3) (2006). Having concluded that the registrant before it had defrauded the USPTO as a matter of law, the court in *City of New York v. Tavern on the Green LP*, 94 U.S.P.Q.2d 1519 (S.D.N.Y. 2010), declined to entertain the registrant's laches defense on the ground that "there is no time limit on the assertion of a claim for cancellation of an otherwise incontestable mark [sic] for fraud." *Id.* at 1526 (citation omitted).
2. The Ninth Circuit confirmed the general rule in that jurisdiction that, if a Lanham Act claim is filed within the corresponding state law statute of limitations, any delay by the plaintiff will be presumed reasonable. *See Au-Tomotive Gold Inc. v. Volkswagen of Am., Inc.*, 603 F.3d 1133 (9th Cir. 2010). Concluding that the relevant Arizona statute of limitations was one that provided for a three-year period, the court therefore upheld the district court's entry of summary judgment in favor of coun-

terclaim plaintiffs who had delayed less than that period. *See id.* at 1139-40.

B. Abandonment

Section 45 of the Lanham Act, 15 U.S.C. § 1127 (2006), sets forth a two-part test for abandonment of rights to a mark under federal law: (1) the mark in question is not in use and (2) its owner has an intent not to resume use. Five opinions in particular provided guidance on the proper application of this analysis over the past twelve months.

1. In *American Ass'n for Justice v. American Trial Lawyers Ass'n*, 698 F. Supp. 2d 1129 (D. Minn. 2010), the plaintiff owner of the ASSOCIATION OF TRIAL LAWYERS OF AMERICA decided to transition to the AMERICAN ASSOCIATION FOR JUSTICE. Shortly afterwards, a longtime member of the plaintiff took steps to begin use of the mark THE AMERICAN TRIAL LAWYERS ASSOCIATION, including the formation of a corporation under that name, the reservation of closely similar domain names, and the transmittal of solicitation letters to members of the plaintiff. *See id.* at 1131-37. In the inevitable lawsuit against the new organization and its principal, the defendants argued that the plaintiff had abandoned the rights to its original mark by adopting its new one. The court disagreed and entered summary judgment in the plaintiff's favor. It noted that, despite announcing its change of name, the plaintiff had continued to use the original mark as late as the defendants' date of first use. Most of the plaintiff's lingering uses were identifications of itself as "[f]ormerly the Association of Trial Lawyers of America"; others, however, were references to the ATLA abbreviation of the plaintiff's original mark, and at least one use of the original mark was included in a promotional video as if the name change had never taken place. *See id.* at 1133-34. With the plaintiff additionally able to demonstrate the existence of a licensee continuing to use the original mark (albeit with goods or services unidentified by the court), a finding of no cessation of use as a matter of law followed. *See id.* at 1138-40.
2. The Fourth Circuit took a much harder line on the issue of continuing use. In an opinion confirming that a showing of use cannot be satisfied by the unsupported testimony of an employee that the mark was referred to in sales presentations, that court held that:

[W]e are aware of no case law supporting the proposition that a seller of goods who declines to use a mark as a trademark on the packaging of his goods obtains trademark rights in the mark through its own verbal use. Em-

bracing such a verbal use doctrine would open the door to all varieties of claims where a party took no steps to use a mark on packaging to identify it as the source of the goods to potential customers.

George & Co. v. Imagination Entm't Ltd., 575 F.3d 383, 402 (4th Cir. 2009) (affirming finding of abandonment as a matter of law).

3. One court properly held that a mark owner's entry into bankruptcy protection does not necessarily work an abandonment of its rights. *See John C. Flood of Va., Inc. v. John C. Flood, Inc.*, 700 F. Supp. 2d 90 (D.D.C. 2010). It thus accepted the claim of prior rights by a party that had purchased the rights to the mark in question at a bankruptcy auction:

There is no reason to believe—and [the party claiming abandonment] certainly offers none—that a company's priority of ownership over its trademark ceases *merely* because the company goes bankrupt. The company's trademark and associated goodwill are valuable assets that become part of the bankruptcy estate and can be validly sold, assigned, or transferred by the estate.

Id. at 95.

4. The Ninth Circuit rejected the proposition that changes to a good sold under a particular mark necessarily result in the abandonment of the mark. *See Marlyn Nutraceuticals, Inc. v. Mucos Pharma GmbH*, 571 F.3d 873 (9th Cir. 2009). The plaintiff was a producer of an enzyme-based nutritional supplement. When the plaintiff standardized the enzyme levels in its products around their activity level rather than their input weight, the defendant argued that the plaintiff had abandoned its rights to the mark and that, under its exclusive distributorship agreement with the plaintiff, it was thereby entitled to assume ownership of the mark. In affirming the district court's grant of the plaintiff's motion for a preliminary injunction, the Ninth Circuit dodged the significance of the language in the parties' agreement, because, it held, the triggering act of abandonment had not occurred. Rather, "[the defendant] did not meet its burden in proving its defense because it did not show that the change in question constituted a cessation of production. Trademark owners are permitted to make small changes to their products without abandoning their marks" *Id.* at 878. In particular, "[t]he record supports the district court's conclusion that [the plaintiff's] changes did not significantly alter the product because it held

nearly constant the activity levels of the enzymes, which were the most important component of the product.” *Id.*

5. Assuming that a mark has not been used in three years, what is the significance of the resulting prima facie evidence of abandonment? The Federal Circuit initially answered this question by confirming that the burden of production (but not proof) shifts to the owner of the discontinued mark to show an intent to resume the mark’s use. *See Crash Dummy Movie, LLC v. Mattel, Inc.*, 601 F.3d 1387, 1391 (Fed. Cir. 2010). The court then held that the initial three years of nonuse was the relevant time period for demonstrating that intent but that evidence and testimony of conduct occurring *after* that period could be probative of the mark owner’s intent *within* it. *See id.* at 1392 (“The Board may consider evidence and testimony regarding [the mark owner’s] practices that occurred before or after the three-year statutory period to infer [the mark owner’s] intent to resume use during the three-year period.”).
6. Finally, the Trademark Trial and Appeal Board held in an application of common sense that an intent-to-use applicant that has not yet used its mark cannot be found to have abandoned it: “With respect to the ground of abandonment, this ground is not available when the opposed application is based on Section 1(b). Use of a mark that is the subject of an application alleging a bona fide intent to use is not required until the applicant files a statement of use.” *See Qualcomm Inc. v. FLO Corp.*, 93 U.S.P.Q.2d 1768, 1770 (T.T.A.B. 2010).

C. Descriptive Fair Use

1. The most aggressive application of the descriptive fair use defense contemplated by Section 33(b)(4), 15 U.S.C. § 1115(b)(4), over the past year was by far and away that of the Sixth Circuit, which affirmed the dismissal of a complaint for failure to state a claim after concluding that the challenged use – that of a personal name, Jim Hensley – was a descriptive fair one. *See Hensley Mfg., Inc. v. ProPride, Inc.*, 579 F.3d 603 (6th Cir. 2009). Having designed a trailer hitch of some note, Hensley had sold his business to the plaintiff, along with two incontestable registrations of marks either consisting of or incorporating the word “Hensley.” When Hensley reentered the market with a new trailer hitch of his own design, the plaintiff sued to prevent the new business from using Jim Hensley’s name in its promotional materials. Although holding that the plaintiff had failed to state a claim of likely confusion in the first instance, the Sixth Circuit agreed with the district court that the defendants were entitled to prevail on their Rule 12(b)(6) motion on descriptive fair use principles. The appellate court noted that the defendants’ references to Hensley fell into several categories:

(1) the identification of him as a designer of trailer hitches in print advertisements featuring a disclaimer of any affiliation between Hensley and the plaintiff; (2) a history on the lead defendant's website styled as "The Jim Hensley Hitch Story," which featured the lead defendant's name "over ten times"; and (3) an eBay advertisement that encouraged consumers to "Buy [the] NEW Jim Hensley Design," but which also recited that "Jim is no longer affiliated with the company that was named after him. He chose [the lead defendant] as the manufacturer of his new design." *Quoted in id.* at 608. Dismissal for failure to state a claim therefore had been appropriate: "Because the complaint and attached exhibits show that [the lead defendant's] uses of Jim Hensley's name are descriptive, and because [the plaintiff] did not allege facts from which any inference of bad faith can be drawn, we hold that the fair use defense applies in this case as a matter of law." *Id.* at 612.

2. Another decision applied the descriptive fair use defense to a documentary title. In *Rin Tin Tin, Inc. v. First Look Studios, Inc.*, 671 F. Supp. 2d 893 (S.D. Tex. 2009), the court entered summary judgment of non-liability in a challenge to a documentary about the original canine hero Rin Tin Tin titled *Finding Rin Tin Tin: The Adventure Continues*. The court found as a matter of law that the plaintiff registrant of the RIN TIN TIN mark for various goods and services was not entitled to an injunction against the documentary's title for three reasons: (1) the title was not source-indicative; (2) the title described the subject of the documentary; and (3) the title was "the most precise way" to describe the product. *See id.* at 899-900. With the court further concluding that the defendants had acted in good faith by identifying themselves as the source of their documentary, the plaintiff's claims fell by the wayside. *See id.* at 901-02.

D. Nominative Fair Use

1. The most aggressive application of the nominative fair use doctrine over the past year was by the Second Circuit in Tiffany's challenge to the sale of goods bearing counterfeit imitations of Tiffany's marks on eBay's online auction site. *See Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93 (2d Cir. 2010). In response to Tiffany's objections to eBay's own advertising of the availability of TIFFANY-branded goods, which the record established included both genuine and nongenuine goods, eBay asserted that it had only been making nominative fair uses of Tiffany's marks. After surveying applications of nominative fair use principles by other jurisdictions, the court declined to "address the viability of the doctrine." *Id.* at 102. Nevertheless, the court then reached a holding that for all practical purposes recognized it:

We have recognized that a defendant may lawfully use a plaintiff's trademark where doing so is necessary to describe the plaintiff's product and does not imply a false affiliation or endorsement by the plaintiff of the defendant.

....

We agree with the district court that eBay's use of Tiffany's mark on its website and in sponsored links was lawful. eBay used the mark to describe accurately the genuine Tiffany goods offered for sale on its website. . . .

Id. at 102-03. What, then, of eBay's use of Tiffany's mark to describe goods that were *not* genuine? On this issue, the court was untroubled by the district court's finding that eBay had had "generalized" knowledge that some of the goods sold by its vendors bore spurious imitations of Tiffany's marks:

. . . eBay's knowledge *vel non* that counterfeit Tiffany wares were offered through its website is relevant to the issue of whether eBay contributed to the direct infringement of Tiffany's mark by the counterfeiting vendors themselves To impose liability because eBay cannot guarantee the genuineness of all of the purported Tiffany products offered on its website would unduly inhibit the lawful resale of genuine Tiffany goods.

Id. at 103.

2. In a strongly worded opinion directed at both the district court and counsel for the plaintiff owner of the LEXUS mark for automobiles, the Ninth Circuit reversed entry of an injunction that prohibited the defendants from using "any . . . domain name, service mark, trademark, trade name, meta tag or other commercial indication of origin that includes the mark LEXUS." *Quoted in Toyota Motor Sales, U.S.A., Inc. v. Tabari*, 610 F.3d 1171, 1176 (9th Cir. 2010). As the appellate court explained, the broad injunction entered by the district court implicated both First Amendment and fair nominative use concerns:

A trademark injunction, particularly one involving nominative fair use, can raise serious First Amendment concerns because it can interfere with truthful communication between buyers and sellers in the marketplace. Accordingly, "we must [e]nsure that [the injunction] is tailored to eliminate only the specific harm alleged." To uphold the broad injunction entered in this case, we

would have to be convinced that consumers are likely to believe a site is sponsored or endorsed by a trademark holder whenever the domain name contains the string of letters that make up the trademark.

Even if we were to modify the injunction to exclude domain names that expressly disclaim sponsorship or endorsement . . . , the injunction would still be too broad. . . . The nominative fair use doctrine allows . . . truthful use of a mark, even if the speaker fails to expressly disavow association with the trademark holder, so long as it's unlikely to cause confusion as to sponsorship or endorsement. . . . Speakers are under no obligation to provide a disclaimer as a condition for engaging in truthful, nonmisleading speech.

Id. at 1176-77 (quoting *E. & J. Gallo Winery v. Gallo Cattle Co.*, 967 F.2d 1280, 1297 (9th Cir. 1992)) (alterations in original) (citations omitted). Although acknowledging that “a domain name containing a mark cannot be nominative fair use if it suggests sponsorship or endorsement by the trademark holder,” *id.* at 1179, the court therefore remanded the action with instructions to the district court to eschew reliance on the traditional test for likely confusion and instead “[to] analyze the case solely under the rubric of nominative fair use.” *Id.* at 1182.

XV. REMEDIES

A. Injunctive Relief

1. In unfair competition litigation in which liability has been proven, permanent injunctive relief is generally the rule, rather than the exception. Indeed, as one court concluded, this result can hold even when a defendant already has ceased use of the challenged mark. *See Maker's Mark Distillery, Inc. v. Diageo N. Am., Inc.*, No. 3:03-CV-93-H, 2010 WL 1407325 (W.D. Ky. Apr. 2, 2010). Not only did the record establish that the defendants had discontinued their use only because of the pending litigation against them, the court entered an injunction for the additional reason that “there is an affirmative reason for the injunction. Equity also requires that [the plaintiff] receive some tangible evidence of successfully protecting its trademark rights.” *Id.* at *19.
2. Whatever the propriety of other forms of injunctive relief, the Ninth Circuit confirmed that recalls of goods bearing infringing marks are appropriate only under narrow circumstances. *See Marlyn Nutraceuti-*

cals, Inc. v. Mucos Pharma GmbH, 571 F.3d 873 (9th Cir. 2009). This holding came in an appeal from a district court order not only enjoining the defendant from the further distribution of an enzyme-based dietary supplement but also requiring it to recall goods it already had sold and to provide consumers with restitution. Although otherwise affirming the district court's disposition of the case, the Ninth Circuit took issue with the ordered recall. In the absence of authority directly on-point in its own case law, the court turned to and adopted the Third Circuit's test on the issue. Under that standard, once a plaintiff demonstrates its entitlement to a conventional prohibitory injunction, the district court must then take into account three additional factors when weighing whether a recall is appropriate:

“(1) the willful or intentional infringement by the defendant; (2) whether the risk of confusion to the public and injury to the trademark owner is greater than the burden of the recall to the defendant; and (3) substantial risk of danger to the public due to the defendant's infringing activity.”

Id. at 879 (quoting *Gucci Am., Inc. v. Daffy's, Inc.*, 354 F.3d 228, 233 (3d Cir. 2003)). Because the district court had not considered the last of these factors in particular, those portions of its order mandating the recall were vacated and the issue remanded for further factfinding. *See id.*

3. A plaintiff's own conduct in pursuing preliminary relief can diminish its chances of success rather dramatically. An extreme example of this phenomenon came in a case in which the plaintiff secured a temporary restraining order from a local court in Puerto Rico before the defendant removed the action to federal district court. *See Gil Pharm. Corp. v. Advanced Generic Corp.*, 692 F. Supp. 2d 212 (D.P.R. 2010). The plaintiff then apparently lost interest in the action: According to the court, the plaintiff

failed to serve the defendants . . . ; it did nothing to follow up on its TRO for over one month; it disregarded this Court's order to show cause as to why the TRO should not be dissolved; it failed to appear [at] a hearing on [the defendant's] motion to dissolve the TRO until prompted to do so by this Court; and it only complied with the Court's order that [the plaintiff] send notice of the TRO's dissolution to [the defendants'] clients late upon the Court's threat of sanctions for noncompliance.

Id. at 218. Not surprisingly, the court was not receptive when the plaintiff moved it for the issuance of another temporary restraining order. To the contrary, it held that:

Because [the plaintiff] failed to show any interest in sustaining . . . [the] injunctive relief [entered by the local court], or in complying with this Court's orders to pay attention to and explain its grounds for being provided such relief, the Court cannot help but conclude that that no irreparable injury exists requiring another TRO.

Id.

B. Monetary Relief

1. Two courts adopted a strict view toward the burden faced by defendants in the accounting of profits inquiry under Section 35(a) of the Lanham Act, 15 U.S.C. 1117(a) (2006).
 - a. In the first case, the claimed to have lost “half” of their financial records in a computer crash. *See Skydive Ariz., Inc. v. Quattrochi*, No. CV-05-2656-PHX-MHM, 2010 WL 1337722, at *5 (D. Ariz. Mar. 31, 2010). Addressing the defendants’ post-trial challenge to an accounting by a jury, the court noted as a threshold matter that “[w]hen seeking profits, the Plaintiff’s only burden is to prove the Defendants’ gross revenues.” *Id.* The defendants disputed the plaintiff’s showing on this issue, but the court wasn’t buying; instead it held that “Plaintiff met its burden, putting on evidence showing Defendants’ gross revenues and putting on [an expert’s] testimony concerning what portion of those revenues were attributable to infringement.” *Id.* Things did not get better for the defendants from there, as the court went on to hold that “[i]f Defendant[s] [are] upset with the jury’s determination of its profits, this ultimately reflects [their] failure to adequately meet [their] burden of proving [their] burden of proving which sales were not attributable to [their] infringement.” *Id.* Because the quantum of the defendants’ profits found by the jury “was in between the minimum and maximum amounts suggested by [the plaintiff’s expert],” *id.*, the court saw no reason to disturb the jury’s verdict.
 - b. Having similarly delegated responsibility for an accounting to a jury, a Fourth Circuit district court rejected the jury’s finding of the profits enjoyed by the infringing counterclaim defendant and awarded the entirety of the counterclaim defendant’s revenues

on the ground that “[the counterclaim plaintiff] was required only to prove the infringer’s sales. It is [the counterclaim defendant’s] duty . . . to prove any deductions. Its failure to do so is fatal to its claim.” *Super Duper, Inc. v. Mattel, Inc.*, 92 U.S.P.Q.2d 1119, 1123 n.3 (D.S.C. 2009), *aff’d*, No. 09-1397, 2010 WL 2340250 (4th Cir. June 10, 2010).

2. Section 35(a) of the Lanham Act authorizes the augmentation of awards of actual damages but only if the resulting figure would constitute compensation and a penalty. *See* 15 U.S.C. § 1117(a) (2006). Somewhat unusually, the past year produced two reported cases in which prevailing plaintiffs successfully secured augmentation of awards under this provision.
 - a. Reviewing an award of trebled actual damages, the Sixth Circuit affirmed. *See La Quinta Corp. v. Heartland Props. LLC*, 603 F.3d 327 (6th Cir. 2010). The defendants were holdover hotel franchisees, who had failed to pay royalties to the plaintiff franchisors for a full year after their termination and two months after the plaintiffs successfully sought preliminary injunctive relief. Quoting approvingly an Eleventh Circuit opinion on similar facts, the court held that the district court had not erred in trebling the amount of the unpaid royalties: “‘When a trademark infringement action is established because a franchisee ‘holds over’ as here, and damages are based on the franchisor’s losses, royalties normally received by the franchisor and expenditures necessary to establish a new franchise will constitute substantial elements in the damage award.’” *Id.* at 344 (quoting *Ramada Inns, Inc. v. Gadsden Motel Co.*, 804 F.2d 1562, 1567 (11th Cir. 1986)).
 - b. Despite the statutory proscription on punitive augmentations, one district court doubled a jury’s award of actual damages, citing reasons that suggested the court’s motivation was to penalize the defendants’ conduct, rather than to make the plaintiff whole. *See Skydive Ariz., Inc. v. Quattrochi*, No. CV-05-2656-PHX-MHM, 2010 WL 1337722, at *5 (D. Ariz. Mar. 31, 2010). Those reasons included: (1) the defendants’ refusal to stop their infringement and false advertising despite repeated objections by the plaintiff and by third parties; (2) the defendants’ knowledge of the plaintiff’s prior rights; (3) the affirmative passing off of the defendants’ services as those of the plaintiff; and (4) the defendants’ “seeming disregard for the people they harmed or the reputation they sullied.” *Id.* at *13.

3. Borrowing from copyright law doctrine, the Eleventh Circuit held that a plaintiff entitled to an award of actual damages arising from a defendant's infringement is not precluded from additionally recovering an award of statutory damages based on the defendant's violation of the Anticybersquatting Consumer Protection Act. *See St. Luke's Cataract & Laser Inst., P.A. v. Sanderson*, 573 F.3d 1186, 1203-06 (11th Cir. 2009).
4. In contrast, the Seventh Circuit confirmed that a plaintiff that elects an award of actual damages cannot pursue statutory damages as well. *See Gabbanelli Accordions & Imps., L.L.C. v. Ditta Gabbanelli Ubaldo di Elio Gabbanelli*, 575 F.3d 693, 697-98 (7th Cir. 2009). In the same opinion, the court also held that Section 35(c)'s authorization of awards of statutory damages of "not less than \$500 or more than \$100,000 per counterfeit mark *per type* of goods or services sold, offered for sale, or distributed," 15 U.S.C. § 1117(c) (2006) (emphasis added), means that statutory damages cannot be awarded for each individual good that is sold bearing a counterfeit mark. *See* 575 F.3d at 698.
5. Addressing the same portion of Section 43(c), another court confirmed that the language "type of good" is to be applied broadly, and that it does not allow a prevailing plaintiff to parse a single product line into individual models for purposes of calculating statutory damages. In *Church & Dwight Co. v. Kaloti Enters. of Mich., LLC*, 697 F. Supp. 2d 287 (E.D.N.Y. 2009), the defendants were found liable as a matter of law for having trafficked in condoms bearing multiple registered marks owned by the plaintiff. Although holding that the plaintiff was entitled to separate awards of statutory damages for each mark misappropriated by the defendants, the court declined to accept the argument that more than one type of good was implicated by their conduct. As the court described the plaintiff's argument on this point, "the five condoms at issue here—Magnum Lubricated, Ultra Ribbed Lubricated, Enz Lubricated, Mint Tingle, and Ultra Thin Lubricated—are different types of goods." *Id.* at 292. The court saw things differently, concluding that "[t]he condoms may be different in size or shape or even fabric and texture but they are not different in basic functionality. Accordingly, I find that there is one 'type of good' for purposes of calculating statutory damages." *Id.*

XVI. USPTO PRACTICE AND PROCEDURE

- A. The most significant developments in USPTO practice and procedure occurred in the context of fraud-on-the-USPTO claims.

1. In one of the most closely watched trademark-related appeals in recent memory, *In re Bose Corp.*, 580 F.3d 1240 (Fed. Cir. 2009), the Federal Circuit overturned the central holding of the Trademark Trial and Appeal Board's decision in *Medinol Ltd v. Neuro Vasx Inc.*, 67 U.S.P.Q.2d 1205 (T.T.A.B. 2003). Specifically, the court disapproved of the Board's practice of finding fraud if a registrant or applicant merely "should have known" that a material representation to the USPTO was false. In the wake of the Federal Circuit's opinion:
 - a. a federal trademark registration can be successfully attacked on the ground that it was fraudulently procured or maintained only if the applicant or registrant knowingly makes a false, material representation with the intent to deceive the USPTO;
 - b. the record evidence and testimony necessary to support a successful fraud-based challenge to an application or registration must be "clear and convincing"; and
 - c. in contrast to the Board's practice of invalidating applications and registrations either in their entirety or with respect to entire classes of goods and services based on a finding of fraud, a more appropriate remedy may be to "restrict" those filings based on the non-use of the mark at issue in connection with individual goods and services.
2. Subsequent decisions by the Board suggest that it intends to apply the *Bose* standard strictly.
 - a. For example, in *Enbridge, Inc. v. Excelerate Energy LP*, 92 U.S.P.Q.2d 1537 (T.T.A.B. 2009), the Board denied the opposer's motion for summary judgment after concluding that there was a factual dispute over whether the registrant's admittedly inaccurate recitation of services had been submitted in bad faith. *See id.* at 1542 ("[T]he lack of clear and convincing evidence on the issue of whether applicant made a false statement regarding use of its mark in connection with the identified services mandates denial of opposer's motion.").
 - b. A similar result held in *DaimlerChrysler Corp. v. American Motors Corp.*, 94 U.S.P.Q.2d 1086 (T.T.A.B. 2010), in which the petitioner for cancellation failed to support its motion for summary judgment with record evidence or testimony that might satisfy the *Bose* standard. *See id.* at 1090.
 - c. The Board then departed still further from its now-defunct jurisprudence under *Medinol* by holding that allegations of fraud in

Asian & Western Classics B.V. v. Selkow, 92 U.S.P.Q.2d 1478 (T.T.A.B. 2009) failed to satisfy the pleading requirements of Rule 9(b) of the Federal Rules of Civil Procedure. Although extensive, the Board's observations on this point merit reproduction at length:

[P]etitioner's allegations in . . . the amended petition to cancel regarding respondent's alleged false statements to the Office are based solely upon information and belief. These allegations fail to meet the Fed. R. Civ. P. 9(b) requirements as they are unsupported by any statement of facts providing the information upon which petitioner relies or the belief upon which the allegation is founded (i.e., known information giving rise to petitioner's stated belief, or a statement regarding evidence that is *likely* to be discovered that would support a claim of fraud).

A pleading of fraud on the USPTO must . . . include an allegation of intent. Moreover, although Rule 9(b) allows that intent may be alleged generally, the pleadings must allege sufficient underlying facts from which a court may reasonably infer that a party acted with the requisite state of mind. Pleadings of fraud which rest solely on allegations that the trademark applicant or registrant made material representations of fact in connection with its application or registration which it "knew or should have known" to be false or misleading are an insufficient pleading of fraud because it implies mere negligence and negligence is not sufficient to infer fraud or dishonesty. Thus under *Bose*, intent is a specific element of a fraud claim and an allegation that a declarant "should have known" a material statement was false does not make out a proper pleading.

Id. at 1479 (footnotes and citations omitted). *But see Meckatzer Löwenbrau Benedikt Weiß KG v. White Gold, LLC*, 95 U.S.P.Q.2d 1185, 1187 (T.T.A.B. 2010) (denying respondent's motion to dismiss on ground that petitioner's allegations "are not based solely on 'information and belief,' but are also based on the results of an investigation which, petitioner alleges, revealed that respondent was not using its mark on all the goods

listed in its Statements of Use at the time the Statements of Use were filed”).

- d. Finally, the Board confirmed that an applicant’s mere knowledge of another party’s use of a confusingly similar mark cannot be the basis of a finding of fraud:

A plaintiff claiming that the declaration or oath in a defendant’s application for registration was executed fraudulently, in that there was another use of the same or a confusingly similar mark at the time the oath was signed, must allege particular facts which, if proven, would establish that: (1) there was in fact another use of the same or a confusingly similar mark at the time the oath was signed; (2) the other user had legal rights superior to applicant’s; (3) applicant knew that the other user had rights in the mark superior to applicant’s, and either believed that a likelihood of confusion would result from applicant’s use of its mark or had no reasonable basis for believing otherwise; and that (4) applicant, in failing to disclose these facts to the U.S. Patent and Trademark Office, intended to procure a registration to which it was not entitled.

Qualcomm Inc. v. FLO Corp., 93 U.S.P.Q.2d 1768, 1770 (T.T.A.B. 2010).

- B. Following the fifth anniversary of its issuance, a federal registration on the Principal Register can be cancelled only on the grounds set forth in Section 14(3) of the Lanham Act, 15 U.S.C. § 1064(3) (2006). In *Montecash LLC v. Anzar Enterprises*, 95 U.S.P.Q.2d 1060 (T.T.A.B. 2010), the Board applied this restriction literally and granted a motion to dismiss a petition for cancellation based on the theory that a portion of a registered mark was generic: “Section 14(3) provides for a claim of cancellation on the ground of genericness with respect to a registration more than five years old only if it is alleged that the mark as a whole is generic.” *Id.* at 1063. It then held that Section of the Act, 15 U.S.C. § 1068, did not authorize the entry of a nonvoluntary disclaimer of the generic portion of the mark, explaining that “allowing the Board to impose disclaimers after registrations are more than five years old is neither expressly provided for by the statute nor, in our view, an equitable remedy contemplated by the legislative history of Section 18.” *Id.* at 1065.

- C. The Board took issue with claims by applicants of a bona fide intent to use their marks in commerce.
1. In a more routine case, the Board sustained an opposition to a Section 1(b) application on the ground that the applicant lacked the required bona fide intent to use its mark. Evidence supporting this finding included the applicant's history of filing and then abandoning successive applications to register the same mark. *See Research in Motion Ltd. v. NBOR Corp.*, 92 U.S.P.Q.2d 1926, 1931 (T.T.A.B. 2009).
 2. Not surprisingly, the Board also held as a matter of law that an applicant that has been enjoined from the use of the applied-for mark cannot state a cognizable intent to use the mark. *See John W. Carson Found. v. Toilets.com, Inc.*, 94 U.S.P.Q.2d 1942, 1948 (T.T.A.B. 2010).
- D. A sharply divided five-judge Board panel affirmed the rejection of an application to register the KHORAN mark for "alcoholic beverages, namely, wines." *In re Lebanese Arak Corp.*, 94 U.S.P.Q.2d 1215 (T.T.A.B. 2010). The basis for the refusal was the prohibition of Section 2(a), 15 U.S.C. § 1052(a) (2006), on the registration of marks that "may disparage" persons, institutions, beliefs, or national symbols. Citing with approval its former case law, the Board initially held that:

"The determination whether a proposed mark is disparaging requires application of the following two-part test:

- 1) what is the likely meaning of the matter in question, taking into account not only dictionary definitions, but also the relationship of the matter to the other elements in the mark, the nature of the goods or services, and the manner in which the mark is used in the marketplace in connection with the goods or services; and
- 2) if that meaning is found to refer to identifiable persons, institutions, beliefs or national symbols, whether that meaning may be disparaging to a substantial composite of the referenced group."

Id. at 1217 (quoting *In re Heeb Media LLC*, 89 U.S.P.Q.2d 1071, 1074 (T.T.A.B. 2008)). Concluding that "[t]here is no real dispute that the Office has met the burden of proving the second part of the test," *id.* at 1217, the Board then found that "KHORAN gives the commercial impression that it is the word Koran, and that the public (other than Armenian speakers) in general, and Muslim Americans in particular, would regard the mark as referring to the holy text of Islam." *See id.* at 1219. Crediting the examiner's showing that the Koran prohibits the consumption of alcohol, the Board ultimately agreed

that “the use of this term for wine would be disparaging to the religion and beliefs of Muslim Americans” *Id.* at 1220.

- E. The Board’s hard line extended to applications of the procedural rules governing *inter partes* and *ex parte* proceedings.
1. For example, in *Odom’s Tennessee Pride Sausage, Inc. v. F.F. Acquisition, L.L.C.*, 600 F.3d 1343, 1346 (Fed. Cir. 2010), the Federal Circuit upheld the Board’s refusal to hear claims that an applicant’s mark was likely to be confused with an opposer’s unregistered marks after the opposer failed to identify those marks in its notice of opposition.
 2. The Board also granted a motion to strike the trial testimony of a witness proffered by a party that had failed to make the pretrial disclosures required by the Board’s new rules. See *Jules Jurgensen/Rhapsody, Inc. v. Baumberger*, 91 U.S.P.Q.2d 1443, 1445 (T.T.A.B. 2009).
 3. In a surprise move, the Board redesignated a previously non-precedential opinion as precedential, in the process confirming that litigants in *inter partes* proceedings cannot supplement their discovery responses during trial and thereby rely upon material that they did not previously disclose during discovery. See *Quality Candy Shops/Buddy Squirrel of Wis., Inc. v. Grande Foods*, 90 U.S.P.Q.2d 1389, 1392 (T.T.A.B. 2007).
 4. On a similar note, the Board also rejected one litigant’s attempt to place into evidence at trial documents that had not previously been produced during the discovery period. See *Panda Travel, Inc. v. Resort Option Enters.*, 94 U.S.P.Q.2d 1789, 1792 (T.T.A.B. 2009).
 5. The Board’s close attention to procedural rules extended to *ex parte* appeals from refusals to register marks. In *In re Petroglyph Games Inc.*, 91 U.S.P.Q.2d 1332 (T.T.A.B. 2009), the Board confirmed that it will not consider evidence first submitted as attachments to applicants’ briefs. See *id.* at 1334.
- F. Nevertheless, the Board did loosen its rules in some areas.
1. In *Safer, Inc. v. OMS Investments, Inc.*, 94 U.S.P.Q.2d 1031 (T.T.A.B. 2009), the Board expanded the category of documents properly admitted through a notice of reliance:

We hold that, *if a document obtained from the Internet identifies its date of publication or date that it was accessed and printed, and its source (e.g., the URL), it may be admitted into evidence pursuant to a notice of re-*

liance in the same manner as a printed publication in general circulation in accordance with Trademark Rule 2.122(e). The Board will henceforth deem a document obtained from the Internet displaying a date and its source as presumptively true and genuine. Of course, the document must be publicly available. The date and source information on the face of Internet documents allow the nonoffering party the opportunity to verify the documents. Due to the transitory nature of the Internet, the party proffering information obtained through the Internet runs the risk that the website owner may change the information contained therein. However, any relevant or significant change to the information submitted by one party is a matter for rebuttal by the opposing party.

Id. at 1039 (citation and footnote omitted).

2. In another case, the Board interpreted 37 C.F.R. § 2.122(d) to allow the reliance at trial on mere TARR printouts of pleaded registrations. *See Research in Motion Ltd. v. NBOR Corp.*, 92 U.S.P.Q.2d 1926, 1928-29 (T.T.A.B. 2009).
3. Finally, the Federal Circuit also got into the act loosening pleading requirements. In *Fred Beverages, Inc. v. Fred's Capital Management Co.*, 605 F.3d 963 (Fed. Cir. 2010), a petitioner for cancellation moved the Board for leave to amend its petition to challenge an additional registration owned by the respondent. Because the petitioner failed to pay the additional required filing fee, the Board denied leave to amend, but the Federal Circuit reversed. At it saw things, “[i]t . . . appears that the TTAB has no stated rule and no established practice of requiring that a supplemental cancellation fee be included with a motion for leave to amend a petition for cancellation.” *Id.* at 966. Because “[t]here is no basis on which to distinguish the circumstances of the present case from those in which the TTAB granted or deferred ruling on motions for leave and set a subsequent deadline for the payment of the underlying fee,” the Board’s action had been impermissibly “arbitrary and capricious.” *Id.* at 967.

XVII. JUDICIAL AUTHORITY OVER REGISTRATIONS

Section 37 of the Lanham Act, 15 U.S.C. § 1119 (2006), grants state and federal courts concurrent authority with the USPTO over the Principal and Supplemental Registers.

- A. Claims brought under Section 37 frequently involved allegations that registrations had been procured through fraudulent filings.
1. Requiring the challenger to a registration to prove fraud by clear and convincing evidence – although without reference to *In re Bose Corp.*, 580 F.3d 1240 (Fed. Cir. 2009) – the Eighth Circuit rejected the proposition that a claim of fraud is inappropriately resolved on summary judgment. See *Pinnacle Pizza Co. v. Little Caesar Enters.*, 598 F.3d 970 (8th Cir. 2010). The alleged fraud occurred when a restaurant franchisor filed an application that recited as a date of first use the date on which one of the franchisor's franchisees had used the mark. The franchisee argued that the franchisor's appropriation of the franchisee's date of first use proved the franchisor's awareness of the franchisee's putative rights to the mark as of the application date. The Eighth Circuit disagreed for two reasons, the first of which was that the parties' franchise agreement accorded ownership of marks used by the franchisee to the franchisor. See *id.* at 980. The second was that "[v]iewing the facts in the light most favorable to [the franchisee], [the franchisor] knew [the franchisee] believed that it had rights to the [mark] when [the franchisor] submitted its trademark application. This fact alone, however, is not sufficient to show bad faith, and [the franchisee] has shown no more." *Id.* at 981. The district court therefore properly had granted the franchisor's motion for summary judgment on the issue. See *id.*
 2. Another court applied *Bose* to conclude that factual disputes concerning a registrant's intent during the application process precluded the grant of a defense motion for summary judgment. See *WMH Tool Group Inc. v. Woodstock Int'l Inc.*, 93 U.S.P.Q.2d 1570, 1579 (N.D. Ill. 2009).
 3. In contrast, and in a rare example of a federal district court addressing a *Medinol*-style claim of fraud, an opinion granting a counterclaim plaintiff's motion for a preliminary injunction found that the counterclaim plaintiff was likely to prove by clear and convincing evidence that the counterclaim defendant's registration had been fraudulently procured, in part because the counterclaim defendant had submitted a fraudulent statement of use. See *Tuccillo v. Geisha NYC, LLC*, 635 F. Supp. 2d 227, 242 (E.D.N.Y. 2009).
 4. Another fraud-based challenge brought by the Dallas Cowboys football team and the National Football League's licensing agency against a registration of the AMERICA'S TEAM mark for shirts similarly bore fruit. See *Dallas Cowboys Football Club, Ltd. v. America's Team Props.*, 616 F. Supp. 2d 622 (N.D. Tex. 2009). One basis for the plaintiffs' allegation of fraudulent procurement was that, prior to filing its application, the defendant's predecessor had reviewed the file wrapper

history of another application to register the same mark, which had been rejected on the ground that the mark falsely suggested a connection to the Cowboys. The court agreed that, as a result of this review, the signatory on the application that matured into the defendant's registration had had actual knowledge of the team's superior rights. It then held as a matter of law that "[i]t is . . . apparent to this Court that Defendant's trademark [registration] was fraudulently obtained. Fraud is rarely proven directly, but may be inferred through circumstantial evidence, the weight of which is overwhelming here." *Id.* at 645.

5. Finally, a court hearing an unusually visible trademark suit invalidated a federal registration of the TAVERN ON THE GREEN mark for restaurant services on the ground that the registrant, rather than being the mark's owner, was merely a licensee of the City of New York. *See City of New York v. Tavern on the Green LP*, 94 U.S.P.Q.2d 1519 (S.D.N.Y. 2010). Rather than applying the "clear and convincing evidence" standard increasingly in judicial vogue when evaluating allegations of fraud, the court held the registrant to a duty of "uncompromising candor." *Id.* at 1525 (quoting *Orient Express Trading Co. v. Federated Stores, Inc.*, 842 F.2d 650, 653 (2d Cir. 1988)). Because the registrant had executed a 1973 agreement with the city that contained the word "license," as well as what passed as quality control provisions, the court held that the registrant's failure to disclose that agreement in its 1978 application fell short of that duty: "That the 1973 Agreement is not explicitly labeled a trademark license agreement does not alter the fact that [the registrant's principal] acknowledged the City's rights to the [mark] in the Agreement and knew that his venture was merely one in a succession of operators of the restaurant." *Id.*

- B. Not all challenges to registrations brought under Section 37 presented claims of fraudulent procurement. In *Bose Corp. v. Lightspeed Aviation, Inc.*, 691 F. Supp. 2d 275 (D. Mass. 2010), the defendant had perhaps ill-advisedly entered into a settlement agreement in an earlier utility patent and trademark dispute that allowed the plaintiff to continue using a registered mark despite the defendant's prior use of a closely similar mark. When, years later, the plaintiff sued the defendant for utility patent infringement, the defendant counterclaimed for the cancellation of the plaintiff's registration – which by then had passed its fifth anniversary and become incontestable – on the theory that the plaintiff had breached the settlement agreement by asserting its patent claims. The plaintiff moved to dismiss the counterclaim for failure to state a claim, and the court entered the requested relief because, it held, breach of contract is not one of the enumerated defenses to the otherwise "conclusive" evidentiary presumptions attaching to an incontestable registration under Section 33(b) of the Lanham Act, 15 U.S.C. § 1115(b) (2006). This was the right result but for the wrong reason. It is Section 14(3), and not Section 33(b), of the Act that

identifies the grounds for cancellation of a registration that has passed its fifth anniversary of issuance; because Section 14 also does not mention breach of contract, however, dismissal of the defendant's counterclaim would have been appropriate even if the court had referred to the proper statutory provision. *See id.* § 1064(3).

United States Court of Appeals for the Federal Circuit

2009-1044

THE FOREST GROUP, INC.,

Plaintiff-Appellee,

v.

BON TOOL COMPANY,

Defendant-Appellant,

and

CIBON INDUSTRIAL
and SHANGHAI HONEST TOOL CO., INC.,

Defendants.

Kristin K. Tassin, Dry & Tassin, P.L.L.C., of Houston, Texas, argued for plaintiff-appellee. Of counsel was Cheri Duncan, Cheri Duncan Attorney at Law, of Houston, Texas.

Richard A. Ejzak, Cohen & Grisgy, P.C., of Pittsburgh, Pennsylvania, argued for defendant-appellant. With him on the brief was Alicia M. Passerin.

Carl S. Kravitz, Zuckerman Spaeder LLP, of Washington, DC, for amicus curiae Paul Hletko.

Appealed from: United States District Court for the Southern District of Texas

Judge Nancy F. Atlas

United States Court of Appeals for the Federal Circuit

2009-1044

THE FOREST GROUP, INC.,

Plaintiff-Appellee,

v.

BON TOOL COMPANY,

Defendant-Appellant,

and

CIBON INDUSTRIAL
and SHANGHAI HONEST TOOL CO., INC.,

Defendants.

Appeal from the United States District Court for the Southern District of Texas in case no. 05-CV-4127, Judge Nancy F. Atlas.

DECIDED: December 28, 2009

Before RADER, PLAGER, and MOORE, Circuit Judges.

MOORE, Circuit Judge.

Bon Tool Company (Bon Tool) appeals a final decision from the United States District Court for the Southern District of Texas. After a bench trial, the district court found that the Forest Group, Inc. (Forest) falsely marked its stilts with intent to deceive the public, and the district court fined Forest \$500 for a single decision to falsely mark. The district court also determined that U.S. Patent No. 5,645,515 (the '515 patent) was not invalid, that Bon Tool did not infringe the '515 patent, and that Forest had not

violated the Lanham Act. The court declined to find the case exceptional or award attorney fees. For the reasons set forth below, we affirm in part, vacate in part, and remand.

BACKGROUND

William Armstrong and Joe Lin are the named inventors on the '515 patent, which claims an improved spring-loaded parallelogram stilt of the type commonly used in construction. See '515 patent fig.1. The claimed stilt contains a floor platform, a shoe platform, and extendable vertical supports that can be used to move the shoe platform to different heights. These platforms and supports are pivotally connected in a parallelogram configuration. A leg support is attached to the side of the rear vertical support and is attached to the shoe platform by a clamp, referred to in the '515 patent as a yoke (50). The patent discloses improvements in the design of the yoke structure and the design of the strap for attaching the leg support to a user's leg. The independent claims of the '515 patent require a "resiliently lined yoke."

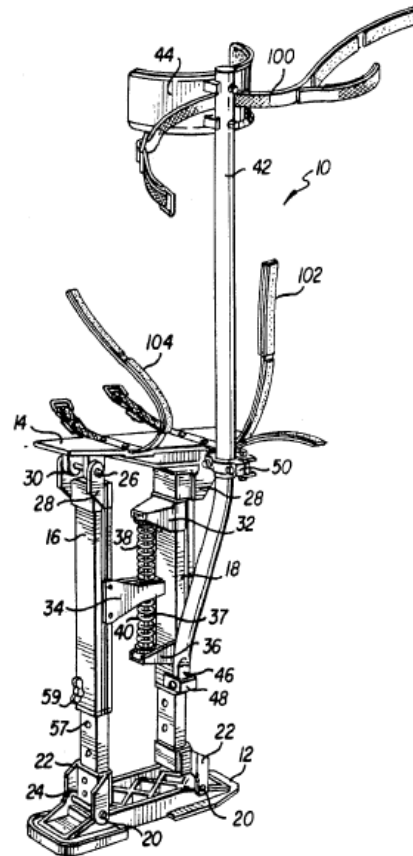


FIG. 1

Mr. Lin and Mr. Armstrong each formed a company for selling stilts covered by the '515 patent. Mr. Lin created Forest, and Mr. Armstrong created Southland Supply Company (Southland).¹ Southland sold stilts to Bon Tool, a tool reseller. Bon Tool later stopped purchasing from Southland and started purchasing stilts from a foreign supplier, Shanghai Honest Tool Co., Ltd. (Honest Tool), which manufactured identical replicas of Southland's stilts without a license from Forest.

In December 2005, Forest sued Bon Tool for infringement of the '515 patent. Bon Tool counterclaimed alleging false marking pursuant to 35 U.S.C. § 292, a Lanham Act violation pursuant to 15 U.S.C. § 1125, and seeking a declaratory judgment that the

¹ Both Mr. Lin and Mr. Armstrong assigned their rights to Forest. Southland sold stilts under a license from Forest.

'515 patent was invalid. In February 2007, the district court issued its claim construction. The district court construed the term “resiliently lined yoke” to mean “a yoke or clamp lined with a material that is capable of being elastically or reversibly deformed,” and the court concluded that the claim term required a lining distinct from the yoke itself. On August 3, 2007, the district court concluded that Forest presented no evidence that the yoke in Bon Tool’s stilts had a separate lining as required by the court’s claim construction and granted summary judgment of noninfringement in favor of Bon Tool. The district court then held a bench trial on Bon Tool’s counterclaims.

The district court found that Forest falsely marked its S2 stilts with its '515 patent number after November 15, 2007 and assessed Forest a \$500 fine for a single offense of false marking.² The district court found that Forest had the requisite knowledge that its S2 stilt was not covered by the '515 patent after a district court in a related case granted summary judgment of noninfringement. In 2001, Forest had accused Warner Manufacturing Company (Warner) of selling stilts that infringed the '515 patent. In 2003, Warner asserted that its stilts did not infringe because they did not include a “resiliently lined yoke.” Warner filed a declaratory judgment action in 2005 in the United States District Court for the District of Minnesota seeking a judgment of noninfringement. On March 30, 2007, the district court construed the term “resiliently lined yoke” in a manner nearly identical to the construction in the present case. On

² Mr. Lin testified that he instructed his manufacturer to remove the patent marking from this order of stilts, however, the district court did not find his testimony credible. The court noted the absence of any documents, phone records, emails or letters to support Mr. Lin’s claim that he instructed the manufacturer to stop marking the S2 stilts. The court further found it incredible that Lin would not have checked the new parts to ensure that they did not contain the patent number had he instructed the manufacturer to stop marking.

November 15, 2007, the district court granted summary judgment of noninfringement in favor of Warner because Warner's stilts did not have a resiliently lined yoke as defined by the court.

By the time Warner was granted summary judgment, Forest had hired new patent counsel, who advised Forest to modify its stilts to include a resilient lining. The district court considered the evidence relating to Forest's alleged intent to deceive and found that Forest knew as of November 15, 2007—the date of the summary judgment of noninfringement in the Warner case—that its S2 stilts were not covered by the '515 patent. The district court found that Forest placed at least one order to its manufacturer for additional S2 model stilts marked with the '515 patent number after November 15, 2007 and fined Forest \$500 for a single offense of false marking.

The district court granted summary judgment for Forest on Bon Tool's remaining counterclaims, deciding that Forest did not violate § 43 of the Lanham Act and that the '515 patent was not invalid. Further, the district court found that the case was not exceptional and denied claims for attorney fees by both parties. Bon Tool appeals. We have jurisdiction pursuant to 35 U.S.C. § 1295(a)(1).

DISCUSSION

Bon Tool appeals the district court's decision on three grounds. First, Bon Tool asserts the district court erred when it concluded that Forest did not have the requisite knowledge to falsely mark prior to November 15, 2007. Second, Bon Tool argues that the district court erred in its interpretation of the false marking statute, 35 U.S.C. § 292, when it determined that the statute provided for a penalty based on each decision to mark rather than on a per article basis. Third, Bon Tool argues that the district court

clearly erred in finding the case not exceptional and abused its discretion in denying attorney fees.

I. False Marking—Knowledge

The two elements of a § 292 false marking claim are (1) marking an unpatented article and (2) intent to deceive the public. See Clontech Labs. Inc. v. Invitrogen Corp., 406 F.3d 1347, 1352 (Fed. Cir. 2005). “Intent to deceive is a state of mind arising when a party acts with sufficient knowledge that what it is saying is not so and consequently that the recipient of its saying will be misled into thinking that the statement is true.” Id. (citing Seven Cases of Eckman's Alterative v. United States, 239 U.S. 510, 517–18 (1916)). A party asserting false marking must show by a preponderance of the evidence that the accused party did not have a reasonable belief that the articles were properly marked. Id. at 1352–53. An assertion by a party that it did not intend to deceive, standing alone, “is worthless as proof of no intent to deceive where there is knowledge of falsehood.” Id. at 1352.

The district court found that Forest had the requisite knowledge to falsely mark by November 15, 2007 when it received the second summary judgment determination. Bon Tool claims that the district court clearly erred because Forest had the requisite knowledge at a much earlier date. We review a finding of false marking after a bench trial for clear error. Id. at 1353. Under a clearly erroneous standard of review, we reverse where after review we are “left with the definite and firm conviction that a mistake has been committed.” Id. (quoting United States v. U.S. Gypsum Co., 333 U.S. 364, 395 (1948)).

The district court did not clearly err in finding that Forest lacked intent to deceive prior to November 15, 2007. The district court found that Forest genuinely believed its stilts were covered by the '515 patent prior to this date. The district court noted that the patent application was written by experienced patent counsel who had an exemplar of the stilt on which Messrs. Lin and Armstrong sought the patent. The court further noted that neither Mr. Lin nor Mr. Armstrong had “strong academic backgrounds” or “in-depth appreciation of patent law” and that Mr. Lin was not a native English speaker. Forest Group, 2008 U.S. Dist. LEXIS 57134, at *15 n.5. Based on the facts in this case, the district court did not clearly err in finding that Forest did not have the requisite knowledge that its own S2 stilts did not fall within its patent claims until November 15, 2007. No doubt the quantum of proof regarding Forest’s knowledge in this case is quite high. We do not suggest that multiple claim constructions or summary judgments are required before the requisite knowledge for false marking can be found. Even if we would have found such knowledge at an earlier date, we cannot conclude that the district court’s fact finding on this issue was clearly erroneous.

II. False Marking—Offense

Bon Tool argues that the district court misinterpreted 35 U.S.C. § 292 when it assessed only \$500 in penalties against Forest for a single “decision to mark its stilts after it knew the stilts did not meet all the claims of the '515 Patent.” See Forest Group, 2008 U.S. Dist. LEXIS 57134, at *21. Statutory interpretation is a question of law that we review de novo. Fina Tech., Inc. v. Ewen, 265 F.3d 1325, 1327 (Fed. Cir. 2001). Section 292 provides a civil penalty for false marking of goods. It states in relevant part:

Whoever marks upon, or affixes to, or uses in advertising in connection with any unpatented article, the word “patent” or any word or number

importing that the same is patented, for the purpose of deceiving the public . . . Shall be fined not more than \$ 500 for every such offense.

35 U.S.C. § 292(a) (2006).

The plain language of the statute does not support the district court's penalty of \$500 for a decision to mark multiple articles. Instead, the statute's plain language requires the penalty to be imposed on a per article basis. The statute prohibits false marking of "any unpatented article," and it imposes a fine for "every such offense." Id. (emphasis added). The statute requires a fine to be imposed for every offense of marking any unpatented article. The act of false marking is the offense punished by the statute. The phrase "for the purpose of deceiving the public" creates an additional requirement of intent but does not change the relationship between the act of marking an article and the penalty. We conclude that the statute clearly requires that each article that is falsely marked with intent to deceive constitutes an offense under 35 U.S.C. § 292.

Forest would like us to hold, as the First Circuit did a century ago in London v. Everett H. Dunbar Corp., 179 F. 506 (1st Cir. 1910), that the false marking statute should be interpreted to impose a single fine for continuous false marking. However, the statute at issue in London differs from the current statute in critical ways. The London court interpreted false marking language from the Patent Act of 1870, which stated in relevant part that "if any person . . . shall in any manner mark upon or affix to any unpatented article the word 'patent,' or any word importing that the same is patented, for the purpose of deceiving the public, he shall be liable for every such offense to a penalty of not less than one hundred dollars." Patent Act of 1870, ch. 230,

§ 39, 16 Stat. 198, 203 (emphasis added). The First Circuit noted that the statute's \$100 minimum penalty would make application on a per article basis inequitable:

Patented articles are so varied in kind and in value that, if we construe the statute to make each distinct article the unit for imposing the penalty, the result may follow that the false marking of small or cheap articles in great quantities will result in the accumulation of an enormous sum of penalties, entirely out of proportion to the value of the articles, while the marking of expensive machines used in limited numbers may result in the infliction of penalties which are comparatively slight in relation to the pecuniary value of the articles.

London, 179 F. at 508. The court concluded that “[i]t can hardly have been the intent of Congress that penalties should accumulate as fast as a printing press or stamping machine might operate.” Id. The London court therefore decided that the continuous false marking of multiple articles should constitute a single offense subject to a distinct penalty. Id.

In 1952, several decades after London, Congress changed the \$100 minimum fine to a maximum fine of \$500, with the explanation that courts had been interpreting the \$100 as a maximum fine. 35 U.S.C. § 292 (1952); 1952 U.S.C.C.A.N. 2394, 2424. Both the statutory language and the underlying policy rationale supporting the London court's interpretation changed. Under the current statute, district courts have the discretion to assess the per article fine at any amount up to \$500 per article. Congress' affirmative change of the statute's penalty from a minimum to a maximum fine eliminated the policy consideration expressed by the court in London of not imposing disproportionate fines for the false marking of small and inexpensive articles.

Although a number of district courts followed London, imposing fines for continuous marking of multiple articles, they have generally done so without analyzing the effect of the 1952 amendment on the false marking statute. See, e.g., A.G. Design

& Assocs., LLC v. Trainman Lantern Co., No. C07-5158RBL, 2009 U.S. Dist. LEXIS 8320, at *9–10 (W.D. Wash. Jan. 23, 2009) (finding the marking of up to 15,000 lanterns over two years as constituting a single “offense”); Undersea Breathing Sys., Inc. v. Nitrox Techs., Inc., 985 F. Supp. 752, 782 (N.D. Ill. 1997); Sadler-Cisar, Inc. v. Commercial Sales Network, Inc., 786 F. Supp. 1287, 1296 (N.D. Ohio 1991); Joy Mfg. Co. v. CGM Valve & Gauge Co., 730 F. Supp. 1387, 1399 (S.D. Tex. 1989); Precision Dynamics Corp. v. Am. Hosp. Supply Co., 241 F. Supp. 436, 447 (S.D. Cal. 1965). But see Enforcer Prods., Inc. v. Birdsong, No. 1-93-CV-1701-CC, slip op. at 20–21 (N.D. Ga. Nov. 29, 2005) (fining defendants \$50 for each product or product packaging falsely marked).

Recognizing that a single \$500 fine for false marking on many occasions “would eviscerate the statute,” a number of courts adopted a time-based approach to § 292. Icon Health & Fitness, Inc. v. Nautilus Group, Inc., No. 1:02 CV 109 TC, 2006 WL 753002, at *16 (D. Utah Mar. 23, 2006) (imposing a penalty for each week that false marking occurred); see also Brose v. Sears, Roebuck & Co., 455 F.2d 763, 766 n.4 (5th Cir. 1972) (noting that a court could limit the fine to each day, week, or month the articles were produced); Krieger v. Colby, 106 F. Supp. 124, 131 (S.D. Cal. 1952) (concluding that each day products were falsely marked constituted a separate offense). These cases fall in line with several early false marking cases, in which penalties were imposed for each day that products were falsely marked. See, e.g., Hoyt v. Computing Scale Co., 96 F. 250, 251 (S.D. Ohio 1899); Hotchkiss v. Samuel Cupples Wooden-Ware Co., 53 F. 1018, 1021 (E.D. Mo. 1891). Although these time-based penalties were creative attempts to reconcile the statute’s language with opinions such as

London, this time-based approach does not find support in the plain language of § 292. Section 292 clearly requires a per article fine.

Policy considerations further support the per article interpretation of § 292. The marking and false marking statutes exist to give the public notice of patent rights. “Congress intended the public to rely on marking as a ‘ready means of discerning the status of intellectual property embodied in an article of manufacture or design.’” Clontech Labs., 406 F.3d at 1356 (quoting Bonito Boats, Inc. v. Thunder Craft Boats, Inc., 489 U.S. 141, 162 (1989)). Acts of false marking deter innovation and stifle competition in the marketplace. 7 Donald S. Chisum, Chisum on Patents § 20.03[7][c][vii] (2009). If an article that is within the public domain is falsely marked, potential competitors may be dissuaded from entering the same market. False marks may also deter scientific research when an inventor sees a mark and decides to forego continued research to avoid possible infringement. See Bonnie Grant, Deficiencies and Proposed Recommendations to the False Marking Statute: Controlling Use of the Term ‘Patent Pending’, 12 J. Intell. Prop. L. 283, 283 (2004). False marking can also cause unnecessary investment in design around or costs incurred to analyze the validity or enforceability of a patent whose number has been marked upon a product with which a competitor would like to compete. Cf. Clontech Labs., 406 F.3d at 1356 n.6 (“In each instance where it is represented that an article is patented, a member of the public desiring to participate in the market for the marked article must incur the cost of determining whether the involved patents are valid and enforceable.”).

These injuries occur each time an article is falsely marked. The more articles that are falsely marked the greater the chance that competitors will see the falsely

marked article and be deterred from competing. See Lans v. Digital Equip. Corp., 252 F.3d 1320, 1327 (Fed. Cir. 2001) (“In sum, knowledge of the patentee’s identity facilitates avoidance of infringement with design changes, negotiations for licenses, and even early resolution of rights in a declaratory judgment proceeding.”). This court’s per article interpretation of § 292 is consonant with the purpose behind marking and false marking.

Forest’s proposed statutory construction—that the statute imposes a single \$500 fine for each decision to falsely mark—would render the statute completely ineffective. Penalizing those who falsely mark a mere \$500 per continuous act of marking, which act could span years and countless articles, would be insufficient to deter in nearly all cases. Congress’ interest in preventing false marking was so great that it enacted a statute which sought to encourage third parties to bring qui tam suits to enforce the statute.

Forest argues that interpreting the fine of § 292 to apply on a per article basis would encourage “a new cottage industry” of false marking litigation by plaintiffs who have not suffered any direct harm. This, however, is what the clear language of the statute allows. Section 292(b) provides that “[a]ny person may sue for the penalty, in which event one-half shall go to the person suing and the other to the use of the United States.” 35 U.S.C. § 292(b). As noted by Forest, an amicus brief was filed in this case by an individual who created a holding company to bring qui tam actions in false marking cases. Commentators have discussed a surge of such actions in recent years, noting the possible rise of “marking trolls” who bring litigation purely for personal gain. See Donald W. Rupert, Trolling for Dollars: A New Threat to Patent Owners, 21 No. 3

Intell. Prop. & Tech. L.J. 1 (2009) (citing five false marking cases filed since 1997); A. Justin Poplin, Avoiding False Patent Marking Claims, Law360, October 9, 2009, <http://www.law360.com/articles/116798> (“Sensing a new source of revenue, individuals have begun suing large corporations for false patent marking when an expired patent number appears on a product.”).

Rather than discourage such activities, the false marking statute explicitly permits qui tam actions. By permitting members of the public to sue on behalf of the government, Congress allowed individuals to help control false marking. The fact that the statute provides for qui tam actions further supports the per article construction. Penalizing false marking on a per decision basis would not provide sufficient financial motivation for plaintiffs—who would share in the penalty—to bring suit. It seems unlikely that any qui tam plaintiffs would incur the enormous expense of patent litigation in order to split a \$500 fine with the government. Forest’s per decision construction is at odds with the clear language of the statute and, moreover, would render the statute completely ineffective.

This does not mean that a court must fine those guilty of false marking \$500 per article marked. The statute provides a fine of “not more than \$500 for every such offense.” 35 U.S.C. § 292(a) (emphasis added). By allowing a range of penalties, the statute provides district courts the discretion to strike a balance between encouraging enforcement of an important public policy and imposing disproportionately large penalties for small, inexpensive items produced in large quantities. In the case of inexpensive mass-produced articles, a court has the discretion to determine that a fraction of a penny per article is a proper penalty.

We hold that the plain language of 35 U.S.C. § 292 requires courts to impose penalties for false marking on a per article basis. In this case, the district court found that Forest falsely marked its stilts after November 15, 2007. The district court did not, however, determine the number of articles falsely marked by Forest after November 15, 2007 or the amount of penalty to be assessed per article. Therefore, we vacate the \$500 fine imposed by the district court and remand to the district court for determinations consistent with this opinion.

III. Attorney Fees

We review a denial of attorney fees under 35 U.S.C. § 285 for an abuse of discretion, but the antecedent determination of whether the case is exceptional is a question of fact that we review for clear error. Forest Labs., Inc. v. Abbott Labs., 339 F.3d 1324, 1328 (Fed. Cir. 2003). The prevailing party must prove the case is exceptional by clear and convincing evidence. Id. at 1327. The district court found the case not exceptional and denied Bon Tool's request for attorney fees. Bon Tool argues that the denial of attorney fees was an abuse of discretion based on Forest's filing of a frivolous lawsuit and because of alleged litigation misconduct. The alleged misconduct relates to: (1) concealing evidence, including the late production of the patent counsel opinion letter and alleged concealment by Forest of the addition of a flexible liner to the SS stilts; (2) obstructing discovery, including last-minute cancellation of depositions of Mr. Lin and his wife; and (3) Mr. Lin allegedly falsely testifying about attempts to remove the '515 patent number from the S2 stilts. The district court saw fit to sanction Forest for discovery abuses alleged by Bon Tool. However, the district court still found that Bon Tool did not prove the case exceptional by clear and convincing evidence, noting

that Bon Tool had been largely unsuccessful in its counterclaims. Forest Group, 2008 U.S. Dist. LEXIS 57134, at *26.

As to the frivolous lawsuit claim, this issue relates directly to the district court's finding that Forest had a reasonable belief that its products (and therefore the exact replicas sold by Bon Tool) were covered by the '515 patent until November 15, 2007. Based on this fact finding, the district court found that the case was filed by Forest in good faith in December 2005. By November 2007, as noted by the district court, Forest was no longer pursuing claims against Bon Tool and was instead only defending against counterclaims. Further, although Bon Tool did not infringe the '515 patent, the district court did not find the patent invalid. The district court's finding that the case was not exceptional was not clearly erroneous.

We have considered the parties' other arguments in this case and find them to be without merit.

CONCLUSION

For the foregoing reasons, we hold that the district court did not clearly err in finding that Forest had the requisite knowledge to falsely mark as of November 15, 2007. Because the district court's construction of the statute was wrong, we vacate the district court's award of \$500 in penalties for a single offense of false marking and remand to the district court for recalculation of fines under 35 U.S.C. § 292 consistent with this opinion. Finally, we affirm the district court's denial of attorney fees.

AFFIRMED IN PART, VACATED IN PART, AND REMANDED

(Slip Opinion)

OCTOBER TERM, 2009

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Syllabus

NOTE: Where it is feasible, a syllabus (headnote) will be released, as is being done in connection with this case, at the time the opinion is issued. The syllabus constitutes no part of the opinion of the Court but has been prepared by the Reporter of Decisions for the convenience of the reader. See *United States v. Detroit Timber & Lumber Co.*, 200 U. S. 321, 337.

SUPREME COURT OF THE UNITED STATES

Syllabus

**BILSKI ET AL. v. KAPPOS, UNDER SECRETARY OF
COMMERCE FOR INTELLECTUAL PROPERTY AND
DIRECTOR, PATENT AND TRADEMARK OFFICE****CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR
THE FEDERAL CIRCUIT**

No. 08–964. Argued November 9, 2009—Decided June 28, 2010

Petitioners' patent application seeks protection for a claimed invention that explains how commodities buyers and sellers in the energy market can protect, or hedge, against the risk of price changes. The key claims are claim 1, which describes a series of steps instructing how to hedge risk, and claim 4, which places the claim 1 concept into a simple mathematical formula. The remaining claims explain how claims 1 and 4 can be applied to allow energy suppliers and consumers to minimize the risks resulting from fluctuations in market demand. The patent examiner rejected the application on the grounds that the invention is not implemented on a specific apparatus, merely manipulates an abstract idea, and solves a purely mathematical problem. The Board of Patent Appeals and Interferences agreed and affirmed. The Federal Circuit, in turn, affirmed. The en banc court rejected its prior test for determining whether a claimed invention was a patentable "process" under Patent Act, 35 U. S. C. §101—*i.e.*, whether the invention produced a "useful, concrete, and tangible result," see, *e.g.*, *State Street Bank & Trust Co v. Signature Financial Group, Inc.*, 149 F. 3d 1368, 1373—holding instead that a claimed process is patent eligible if: (1) it is tied to a particular machine or apparatus, or (2) it transforms a particular article into a different state or thing. Concluding that this "machine-or-transformation test" is the sole test for determining patent eligibility of a "process" under §101, the court applied the test and held that the application was not patent eligible.

Held: The judgment is affirmed.

Syllabus

545 F. 3d 943, affirmed.

JUSTICE KENNEDY delivered the opinion of the Court, except as to Parts II–B–2 and II–C–2, concluding that petitioners' claimed invention is not patent eligible. Pp. 4–8, 10–11, 12–16.

(a) Section 101 specifies four independent categories of inventions or discoveries that are patent eligible: “process[es],” “machin[es],” “manufactur[es],” and “composition[s] of matter.” “In choosing such expansive terms, . . . Congress plainly contemplated that the patent laws would be given wide scope,” *Diamond v. Chakrabarty*, 447 U. S. 303, 308, in order to ensure that “‘ingenuity should receive a liberal encouragement,’” *id.*, at 308–309. This Court’s precedents provide three specific exceptions to §101’s broad principles: “laws of nature, physical phenomena, and abstract ideas.” *Id.*, at 309. While not required by the statutory text, these exceptions are consistent with the notion that a patentable process must be “new and useful.” And, in any case, the exceptions have defined the statute’s reach as a matter of statutory *stare decisis* going back 150 years. See *Le Roy v. Tatham*, 14 How. 156, 174. The §101 eligibility inquiry is only a threshold test. Even if a claimed invention qualifies in one of the four categories, it must also satisfy “the conditions and requirements of this title,” §101(a), including novelty, see §102, nonobviousness, see §103, and a full and particular description, see §112. The invention at issue is claimed to be a “process,” which §100(b) defines as a “process, art or method, and includes a new use of a known process, machine, manufacture, composition of matter, or material.” Pp. 4–5.

(b) The machine-or-transformation test is not the sole test for patent eligibility under §101. The Court’s precedents establish that although that test may be a useful and important clue or investigative tool, it is not the sole test for deciding whether an invention is a patent-eligible “process” under §101. In holding to the contrary, the Federal Circuit violated two principles of statutory interpretation: Courts “‘should not read into the patent laws limitations and conditions which the legislature has not expressed,’” *Diamond v. Diehr*, 450 U. S. 175, 182, and, “[u]nless otherwise defined, ‘words will be interpreted as taking their ordinary, contemporary, common meaning,’” *ibid.* The Court is unaware of any ordinary, contemporary, common meaning of “process” that would require it to be tied to a machine or the transformation of an article. Respondent Patent Director urges the Court to read §101’s other three patentable categories as confining “process” to a machine or transformation. However, the doctrine of *noscitur a sociis* is inapplicable here, for §100(b) already explicitly defines “process,” see *Burgess v. United States*, 553 U. S. 124, 130, and nothing about the section’s inclusion of those other categories suggests that a “process” must be tied to one of them.

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Finally, the Federal Circuit incorrectly concluded that this Court has endorsed the machine-or-transformation test as the exclusive test. Recent authorities show that the test was never intended to be exhaustive or exclusive. See, e.g., *Parker v. Flook*, 437 U. S. 584, 588, n. 9. Pp. 5–8.

(c) Section 101 similarly precludes a reading of the term “process” that would categorically exclude business methods. The term “method” within §100(b)’s “process” definition, at least as a textual matter and before other consulting other Patent Act limitations and this Court’s precedents, may include at least some methods of doing business. The Court is unaware of any argument that the “ordinary, contemporary, common meaning,” *Diehr, supra*, at 182, of “method” excludes business methods. Nor is it clear what a business method exception would sweep in and whether it would exclude technologies for conducting a business more efficiently. The categorical exclusion argument is further undermined by the fact that federal law explicitly contemplates the existence of at least some business method patents: Under §273(b)(1), if a patent-holder claims infringement based on “a method in [a] patent,” the alleged infringer can assert a defense of prior use. By allowing this defense, the statute itself acknowledges that there may be business method patents. Section 273 thus clarifies the understanding that a business method is simply one kind of “method” that is, at least in some circumstances, eligible for patenting under §101. A contrary conclusion would violate the canon against interpreting any statutory provision in a manner that would render another provision superfluous. See *Corley v. United States*, 556 U. S. ___, ___. Finally, while §273 appears to leave open the possibility of some business method patents, it does not suggest broad patentability of such claimed inventions. Pp. 10–11.

(d) Even though petitioners’ application is not categorically outside of §101 under the two atextual approaches the Court rejects today, that does not mean it is a “process” under §101. Petitioners seek to patent both the concept of hedging risk and the application of that concept to energy markets. Under *Benson, Flook*, and *Diehr*, however, these are not patentable processes but attempts to patent abstract ideas. Claims 1 and 4 explain the basic concept of hedging and reduce that concept to a mathematical formula. This is an unpatentable abstract idea, just like the algorithms at issue in *Benson* and *Flook*. Petitioners’ remaining claims, broad examples of how hedging can be used in commodities and energy markets, attempt to patent the use of the abstract hedging idea, then instruct the use of well-known random analysis techniques to help establish some of the inputs into the equation. They add even less to the underlying abstract principle than the invention held patent ineligible in *Flook*. Pp. 12–

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15.

(e) Because petitioners' patent application can be rejected under the Court's precedents on the unpatentability of abstract ideas, the Court need not define further what constitutes a patentable "process," beyond pointing to the definition of that term provided in §100(b) and looking to the guideposts in *Benson*, *Flook*, and *Diehr*. Nothing in today's opinion should be read as endorsing the Federal Circuit's past interpretations of §101. See, e.g., *State Street*, 49 F. 3d, at 1373. The appeals court may have thought it needed to make the machine-or-transformation test exclusive precisely because its case law had not adequately identified less extreme means of restricting business method patents. In disapproving an exclusive machine-or-transformation test, this Court by no means desires to preclude the Federal Circuit's development of other limiting criteria that further the Patent Act's purposes and are not inconsistent with its text. P. 16.

KENNEDY, J., delivered the opinion of the Court, except for Parts II-B-2 and II-C-2. ROBERTS, C. J., and THOMAS and ALITO, JJ., joined the opinion in full, and SCALIA, J., joined except for Parts II-B-2 and II-C-2. STEVENS, J., filed an opinion concurring in the judgment, in which GINSBURG, BREYER, and SOTOMAYOR, JJ., joined. BREYER, J., filed an opinion concurring in the judgment, in which SCALIA, J., joined as to Part II.

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NOTICE: This opinion is subject to formal revision before publication in the preliminary print of the United States Reports. Readers are requested to notify the Reporter of Decisions, Supreme Court of the United States, Washington, D. C. 20543, of any typographical or other formal errors, in order that corrections may be made before the preliminary print goes to press.

SUPREME COURT OF THE UNITED STATES

No. 08–964

BERNARD L. BILSKI AND RAND A. WARSAW,
PETITIONERS *v.* DAVID J. KAPPOS, UNDER
SECRETARY OF COMMERCE FOR INTEL-
LECTUAL PROPERTY AND DIRECTOR,
PATENT AND TRADEMARK OFFICE

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF
APPEALS FOR THE FEDERAL CIRCUIT

[June 28, 2010]

JUSTICE KENNEDY delivered the opinion of the Court,
except as to Parts II–B–2 and II–C–2.*

The question in this case turns on whether a patent can be issued for a claimed invention designed for the business world. The patent application claims a procedure for instructing buyers and sellers how to protect against the risk of price fluctuations in a discrete section of the economy. Three arguments are advanced for the proposition that the claimed invention is outside the scope of patent law: (1) it is not tied to a machine and does not transform an article; (2) it involves a method of conducting business; and (3) it is merely an abstract idea. The Court of Appeals ruled that the first mentioned of these, the so-called machine-or-transformation test, was the sole test to be used for determining the patentability of a “process” under the Patent Act, 35 U. S. C. §101.

* JUSTICE SCALIA does not join Parts II–B–2 and II–C–2.

I

Petitioners' application seeks patent protection for a claimed invention that explains how buyers and sellers of commodities in the energy market can protect, or hedge, against the risk of price changes. The key claims are claims 1 and 4. Claim 1 describes a series of steps instructing how to hedge risk. Claim 4 puts the concept articulated in claim 1 into a simple mathematical formula. Claim 1 consists of the following steps:

“(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 consumers;

“(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 balances the risk position of said series of consumer transactions.” App. 19–20.

The remaining claims explain how claims 1 and 4 can be applied to allow energy suppliers and consumers to minimize the risks resulting from fluctuations in market demand for energy. For example, claim 2 claims “[t]he method of claim 1 wherein said commodity is energy and said market participants are transmission distributors.” *Id.*, at 20. Some of these claims also suggest familiar statistical approaches to determine the inputs to use in claim 4's equation. For example, claim 7 advises using well-known random analysis techniques to determine how much a seller will gain “from each transaction under each

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historical weather pattern.” *Id.*, at 21.

The patent examiner rejected petitioners’ application, explaining that it “is not implemented on a specific apparatus and merely manipulates [an] abstract idea and solves a purely mathematical problem without any limitation to a practical application, therefore, the invention is not directed to the technological arts.” App. to Pet. for Cert. 148a. The Board of Patent Appeals and Interferences affirmed, concluding that the application involved only mental steps that do not transform physical matter and was directed to an abstract idea. *Id.*, at 181a–186a.

The United States Court of Appeals for the Federal Circuit heard the case en banc and affirmed. The case produced five different opinions. Students of patent law would be well advised to study these scholarly opinions.

Chief Judge Michel wrote the opinion of the court. The court rejected its prior test for determining whether a claimed invention was a patentable “process” under §101—whether it produces a “useful, concrete, and tangible result”—as articulated in *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, 149 F.3d 1368, 1373 (1998), and *AT&T Corp. v. Excel Communications, Inc.*, 172 F.3d 1352, 1357 (1999). See *In re Bilski*, 545 F.3d 943, 959–960, and n. 19 (CA Fed. 2008) (en banc). The court held that “[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.” *Id.*, at 954. The court concluded this “machine-or-transformation test” is “the sole test governing §101 analyses,” *id.*, at 955, and thus the “test for determining patent eligibility of a process under §101,” *id.*, at 956. Applying the machine-or-transformation test, the court held that petitioners’ application was not patent eligible. *Id.*, at 963–966. Judge Dyk wrote a separate concurring opinion, providing historical support for the

court's approach. *Id.*, at 966–976.

Three judges wrote dissenting opinions. Judge Mayer argued that petitioners' application was "not eligible for patent protection because it is directed to a method of conducting business." *Id.*, at 998. He urged the adoption of a "technological standard for patentability." *Id.*, at 1010. Judge Rader would have found petitioners' claims were an unpatentable abstract idea. *Id.*, at 1011. Only Judge Newman disagreed with the court's conclusion that petitioners' application was outside of the reach of §101. She did not say that the application should have been granted but only that the issue should be remanded for further proceedings to determine whether the application qualified as patentable under other provisions. *Id.*, at 997.

This Court granted certiorari. 556 U. S. ___ (2009).

II

A

Section 101 defines the subject matter that may be patented under the Patent Act:

"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."

Section 101 thus specifies four independent categories of inventions or discoveries that are eligible for protection: processes, machines, manufactures, and compositions of matter. "In choosing such expansive terms . . . modified by the comprehensive 'any,' Congress plainly contemplated that the patent laws would be given wide scope." *Diamond v. Chakrabarty*, 447 U. S. 303, 308 (1980). Congress took this permissive approach to patent eligibility to ensure that "ingenuity should receive a liberal encouragement." *Id.*, at 308–309 (quoting 5 Writings of Thomas

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Jefferson 75–76 (H. Washington ed. 1871)).

The Court's precedents provide three specific exceptions to §101's broad patent-eligibility principles: "laws of nature, physical phenomena, and abstract ideas." *Chakrabarty, supra*, at 309. While these exceptions are not required by the statutory text, they are consistent with the notion that a patentable process must be "new and useful." And, in any case, these exceptions have defined the reach of the statute as a matter of statutory *stare decisis* going back 150 years. See *Le Roy v. Tatham*, 14 How. 156, 174–175 (1853). The concepts covered by these exceptions are "part of the storehouse of knowledge of all men . . . free to all men and reserved exclusively to none." *Funk Brothers Seed Co. v. Kalo Inoculant Co.*, 333 U. S. 127, 130 (1948).

The §101 patent-eligibility inquiry is only a threshold test. Even if an invention qualifies as a process, machine, manufacture, or composition of matter, in order to receive the Patent Act's protection the claimed invention must also satisfy "the conditions and requirements of this title." §101. Those requirements include that the invention be novel, see §102, nonobvious, see §103, and fully and particularly described, see §112.

The present case involves an invention that is claimed to be a "process" under §101. Section 100(b) defines "process" as:

"process, art or method, and includes a new use of a known process, machine, manufacture, composition of matter, or material."

The Court first considers two proposed categorical limitations on "process" patents under §101 that would, if adopted, bar petitioners' application in the present case: the machine-or-transformation test and the categorical exclusion of business method patents.

B
1

Under the Court of Appeals' formulation, an invention is a "process" only if: "(1) it is tied to a particular machine or apparatus, or (2) it transforms a particular article into a different state or thing." 545 F. 3d, at 954. This Court has "more than once cautioned that courts 'should not read into the patent laws limitations and conditions which the legislature has not expressed.'" *Diamond v. Diehr*, 450 U. S. 175, 182 (1981) (quoting *Chakrabarty, supra*, at 308; some internal quotation marks omitted). In patent law, as in all statutory construction, "[u]nless otherwise defined, 'words will be interpreted as taking their ordinary, contemporary, common meaning.'" *Diehr, supra*, at 182 (quoting *Perrin v. United States*, 444 U. S. 37, 42 (1979)). The Court has read the §101 term "manufacture" in accordance with dictionary definitions, see *Chakrabarty, supra*, at 308 (citing *American Fruit Growers, Inc. v. Brogdex Co.*, 283 U. S. 1, 11 (1931)), and approved a construction of the term "composition of matter" consistent with common usage, see *Chakrabarty, supra*, at 308 (citing *Shell Development Co. v. Watson*, 149 F. Supp. 279, 280 (DC 1957)).

Any suggestion in this Court's case law that the Patent Act's terms deviate from their ordinary meaning has only been an explanation for the exceptions for laws of nature, physical phenomena, and abstract ideas. See *Parker v. Flook*, 437 U. S. 584, 588–589 (1978). This Court has not indicated that the existence of these well-established exceptions gives the Judiciary *carte blanche* to impose other limitations that are inconsistent with the text and the statute's purpose and design. Concerns about attempts to call any form of human activity a "process" can be met by making sure the claim meets the requirements of §101.

Adopting the machine-or-transformation test as the sole

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test for what constitutes a “process” (as opposed to just an important and useful clue) violates these statutory interpretation principles. Section 100(b) provides that “[t]he term ‘process’ means process, art or method, and includes a new use of a known process, machine, manufacture, composition of matter, or material.” The Court is unaware of any “ordinary, contemporary, common meaning,” *Diehr, supra*, at 182, of the definitional terms “process, art or method” that would require these terms to be tied to a machine or to transform an article. Respondent urges the Court to look to the other patentable categories in §101—machines, manufactures, and compositions of matter—to confine the meaning of “process” to a machine or transformation, under the doctrine of *noscitur a sociis*. Under this canon, “an ambiguous term may be given more precise content by the neighboring words with which it is associated.” *United States v. Stevens*, 559 U. S. ____, ____ (2010) (slip op., at 12) (internal quotation marks omitted). This canon is inapplicable here, for §100(b) already explicitly defines the term “process.” See *Burgess v. United States*, 553 U. S. 124, 130 (2008) (“When a statute includes an explicit definition, we must follow that definition” (internal quotation marks omitted)).

The Court of Appeals incorrectly concluded that this Court has endorsed the machine-or-transformation test as the exclusive test. It is true that *Cochrane v. Deener*, 94 U. S. 780, 788 (1877), explained that a “process” is “an act, or a series of acts, performed upon the subject-matter to be transformed and reduced to a different state or thing.” More recent cases, however, have rejected the broad implications of this dictum; and, in all events, later authority shows that it was not intended to be an exhaustive or exclusive test. *Gottschalk v. Benson*, 409 U. S. 63, 70 (1972), noted that “[t]ransformation and reduction of an article ‘to a different state or thing’ is the clue to the pat-

entability of a process claim that does not include particular machines.” At the same time, it explicitly declined to “hold that no process patent could ever qualify if it did not meet [machine or transformation] requirements.” *Id.*, at 71. *Flook* took a similar approach, “assum[ing] that a valid process patent may issue even if it does not meet [the machine-or-transformation test].” 437 U. S., at 588, n. 9.

This Court’s precedents establish that the machine-or-transformation test is a useful and important clue, an investigative tool, for determining whether some claimed inventions are processes under §101. The machine-or-transformation test is not the sole test for deciding whether an invention is a patent-eligible “process.”

2

It is true that patents for inventions that did not satisfy the machine-or-transformation test were rarely granted in earlier eras, especially in the Industrial Age, as explained by Judge Dyk’s thoughtful historical review. See 545 F. 3d, at 966–976 (concurring opinion). But times change. Technology and other innovations progress in unexpected ways. For example, it was once forcefully argued that until recent times, “well-established principles of patent law probably would have prevented the issuance of a valid patent on almost any conceivable computer program.” *Diehr*, 450 U. S., at 195 (STEVENS, J., dissenting). But this fact does not mean that unforeseen innovations such as computer programs are always unpatentable. See *id.*, at 192–193 (majority opinion) (holding a procedure for molding rubber that included a computer program is within patentable subject matter). Section 101 is a “dynamic provision designed to encompass new and unforeseen inventions.” *J. E. M. Ag Supply, Inc. v. Pioneer Hi-Bred Int’l, Inc.*, 534 U. S. 124, 135 (2001). A categorical rule denying patent protection for “inventions in areas not

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contemplated by Congress . . . would frustrate the purposes of the patent law.” *Chakrabarty*, 447 U. S., at 315.

The machine-or-transformation test may well provide a sufficient basis for evaluating processes similar to those in the Industrial Age—for example, inventions grounded in a physical or other tangible form. But there are reasons to doubt whether the test should be the sole criterion for determining the patentability of inventions in the Information Age. As numerous *amicus* briefs argue, the machine-or-transformation test would create uncertainty as to the patentability of software, advanced diagnostic medicine techniques, and inventions based on linear programming, data compression, and the manipulation of digital signals. See, *e.g.*, Brief for Business Software Alliance 24–25; Brief for Biotechnology Industry Organization et al. 14–27; Brief for Boston Patent Law Association 8–15; Brief for Houston Intellectual Property Law Association 17–22; Brief for Dolby Labs., Inc., et al. 9–10.

In the course of applying the machine-or-transformation test to emerging technologies, courts may pose questions of such intricacy and refinement that they risk obscuring the larger object of securing patents for valuable inventions without transgressing the public domain. The dissent by Judge Rader refers to some of these difficulties. 545 F. 3d, at 1015. As a result, in deciding whether previously unforeseen inventions qualify as patentable “process[es],” it may not make sense to require courts to confine themselves to asking the questions posed by the machine-or-transformation test. Section 101’s terms suggest that new technologies may call for new inquiries. See *Benson*, *supra*, at 71 (to “freeze process patents to old technologies, leaving no room for the revelations of the new, onrushing technology[,] . . . is not our purpose”).

It is important to emphasize that the Court today is not commenting on the patentability of any particular inven-

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tion, let alone holding that any of the above-mentioned technologies from the Information Age should or should not receive patent protection. This Age puts the possibility of innovation in the hands of more people and raises new difficulties for the patent law. With ever more people trying to innovate and thus seeking patent protections for their inventions, the patent law faces a great challenge in striking the balance between protecting inventors and not granting monopolies over procedures that others would discover by independent, creative application of general principles. Nothing in this opinion should be read to take a position on where that balance ought to be struck.

C

1

Section 101 similarly precludes the broad contention that the term “process” categorically excludes business methods. The term “method,” which is within §100(b)’s definition of “process,” at least as a textual matter and before consulting other limitations in the Patent Act and this Court’s precedents, may include at least some methods of doing business. See, *e.g.*, Webster’s New International Dictionary 1548 (2d ed. 1954) (defining “method” as “[a]n orderly procedure or process . . . regular way or manner of doing anything; hence, a set form of procedure adopted in investigation or instruction”). The Court is unaware of any argument that the “ordinary, contemporary, common meaning,” *Diehr, supra*, at 182, of “method” excludes business methods. Nor is it clear how far a prohibition on business method patents would reach, and whether it would exclude technologies for conducting a business more efficiently. See, *e.g.*, Hall, Business and Financial Method Patents, Innovation, and Policy, 56 *Scottish J. Pol. Econ.* 443, 445 (2009) (“There is no precise definition of . . . business method patents”).

The argument that business methods are categorically

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outside of §101's scope is further undermined by the fact that federal law explicitly contemplates the existence of at least some business method patents. Under 35 U. S. C. §273(b)(1), if a patent-holder claims infringement based on "a method in [a] patent," the alleged infringer can assert a defense of prior use. For purposes of this defense alone, "method" is defined as "a method of doing or conducting business." §273(a)(3). In other words, by allowing this defense the statute itself acknowledges that there may be business method patents. Section 273's definition of "method," to be sure, cannot change the meaning of a prior-enacted statute. But what §273 does is clarify the understanding that a business method is simply one kind of "method" that is, at least in some circumstances, eligible for patenting under §101.

A conclusion that business methods are not patentable in any circumstances would render §273 meaningless. This would violate the canon against interpreting any statutory provision in a manner that would render another provision superfluous. See *Corley v. United States*, 556 U. S. ___, ___ (2009) (slip op., at 9). This principle, of course, applies to interpreting any two provisions in the U. S. Code, even when Congress enacted the provisions at different times. See, e.g., *Hague v. Committee for Industrial Organization*, 307 U. S. 496, 529–530 (1939) (opinion of Stone, J.). This established rule of statutory interpretation cannot be overcome by judicial speculation as to the subjective intent of various legislators in enacting the subsequent provision. Finally, while §273 appears to leave open the possibility of some business method patents, it does not suggest broad patentability of such claimed inventions.

2

Interpreting §101 to exclude all business methods simply because business method patents were rarely issued

until modern times revives many of the previously discussed difficulties. See *supra*, at 8–9. At the same time, some business method patents raise special problems in terms of vagueness and suspect validity. See *eBay Inc. v. MercExchange, L. L. C.*, 547 U.S. 388, 397 (2006) (KENNEDY, J., concurring). The Information Age empowers people with new capacities to perform statistical analyses and mathematical calculations with a speed and sophistication that enable the design of protocols for more efficient performance of a vast number of business tasks. If a high enough bar is not set when considering patent applications of this sort, patent examiners and courts could be flooded with claims that would put a chill on creative endeavor and dynamic change.

In searching for a limiting principle, this Court's precedents on the unpatentability of abstract ideas provide useful tools. See *infra*, at 12–15. Indeed, if the Court of Appeals were to succeed in defining a narrower category or class of patent applications that claim to instruct how business should be conducted, and then rule that the category is unpatentable because, for instance, it represents an attempt to patent abstract ideas, this conclusion might well be in accord with controlling precedent. See *ibid.* But beyond this or some other limitation consistent with the statutory text, the Patent Act leaves open the possibility that there are at least some processes that can be fairly described as business methods that are within patentable subject matter under §101.

Finally, even if a particular business method fits into the statutory definition of a “process,” that does not mean that the application claiming that method should be granted. In order to receive patent protection, any claimed invention must be novel, §102, nonobvious, §103, and fully and particularly described, §112. These limitations serve a critical role in adjusting the tension, ever

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present in patent law, between stimulating innovation by protecting inventors and impeding progress by granting patents when not justified by the statutory design.

III

Even though petitioners' application is not categorically outside of §101 under the two broad and atextual approaches the Court rejects today, that does not mean it is a "process" under §101. Petitioners seek to patent both the concept of hedging risk and the application of that concept to energy markets. App. 19–20. Rather than adopting categorical rules that might have wide-ranging and unforeseen impacts, the Court resolves this case narrowly on the basis of this Court's decisions in *Benson*, *Flook*, and *Diehr*, which show that petitioners' claims are not patentable processes because they are attempts to patent abstract ideas. Indeed, all members of the Court agree that the patent application at issue here falls outside of §101 because it claims an abstract idea.

In *Benson*, the Court considered whether a patent application for an algorithm to convert binary-coded decimal numerals into pure binary code was a "process" under §101. 409 U. S., at 64–67. The Court first explained 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." *Id.*, at 67 (quoting *Le Roy*, 14 How., at 175). The Court then held the application at issue was not a "process," but an unpatentable abstract idea. "It is conceded that one may not patent an idea. But in practical effect that would be the result if the formula for converting . . . numerals to pure binary numerals were patented in this case." 409 U. S., at 71. A contrary holding "would wholly pre-empt the mathematical formula and in practical effect would be a patent on the algorithm itself." *Id.*, at 72.

In *Flook*, the Court considered the next logical step after

Benson. The applicant there attempted to patent a procedure for monitoring the conditions during the catalytic conversion process in the petrochemical and oil-refining industries. The application's only innovation was reliance on a mathematical algorithm. 437 U. S., at 585–586. *Flook* held the invention was not a patentable “process.” The Court conceded the invention at issue, unlike the algorithm in *Benson*, had been limited so that it could still be freely used outside the petrochemical and oil-refining industries. 437 U. S., at 589–590. Nevertheless, *Flook* rejected “[t]he notion that post-solution activity, no matter how conventional or obvious in itself, can transform an unpatentable principle into a patentable process.” *Id.*, at 590. The Court concluded that the process at issue there was “unpatentable under §101, not because it contain[ed] a mathematical algorithm as one component, but because once that algorithm [wa]s assumed to be within the prior art, the application, considered as a whole, contain[ed] no patentable invention.” *Id.*, at 594. As the Court later explained, *Flook* stands for the proposition that the prohibition against patenting abstract ideas “cannot be circumvented by attempting to limit the use of the formula to a particular technological environment” or adding “insignificant postsolution activity.” *Diehr*, 450 U. S., at 191–192.

Finally, in *Diehr*, the Court established a limitation on the principles articulated in *Benson* and *Flook*. The application in *Diehr* claimed a previously unknown method for “molding raw, uncured synthetic rubber into cured precision products,” using a mathematical formula to complete some of its several steps by way of a computer. 450 U. S., at 177. *Diehr* explained that while an abstract idea, law of nature, or mathematical formula could not be patented, “an *application* of a law of nature or mathematical formula to a known structure or process may well be deserving of patent protection.” *Id.*, at 187. *Diehr* emphasized

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the need to consider the invention as a whole, rather than “dissect[ing] the claims into old and new elements and then . . . ignor[ing] the presence of the old elements in the analysis.” *Id.*, at 188. Finally, the Court concluded that because the claim was not “an attempt to patent a mathematical formula, but rather [was] an industrial process for the molding of rubber products,” it fell within §101’s patentable subject matter. *Id.*, at 192–193.

In light of these precedents, it is clear that petitioners’ application is not a patentable “process.” Claims 1 and 4 in petitioners’ application explain the basic concept of hedging, or protecting against risk: “Hedging is a fundamental economic practice long prevalent in our system of commerce and taught in any introductory finance class.” 545 F. 3d, at 1013 (Rader, J., dissenting); see, e.g., D. Chorafas, *Introduction to Derivative Financial Instruments* 75–94 (2008); C. Stickney, R. Weil, K. Schipper, & J. Francis, *Financial Accounting: An Introduction to Concepts, Methods, and Uses* 581–582 (13th ed. 2010); S. Ross, R. Westerfield, & B. Jordan, *Fundamentals of Corporate Finance* 743–744 (8th ed. 2008). The concept of hedging, described in claim 1 and reduced to a mathematical formula in claim 4, is an unpatentable abstract idea, just like the algorithms at issue in *Benson* and *Flook*. Allowing petitioners to patent risk hedging would preempt use of this approach in all fields, and would effectively grant a monopoly over an abstract idea.

Petitioners’ remaining claims are broad examples of how hedging can be used in commodities and energy markets. *Flook* established that limiting an abstract idea to one field of use or adding token postsolution components did not make the concept patentable. That is exactly what the remaining claims in petitioners’ application do. These claims attempt to patent the use of the abstract idea of hedging risk in the energy market and then instruct the

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use of well-known random analysis techniques to help establish some of the inputs into the equation. Indeed, these claims add even less to the underlying abstract principle than the invention in *Flook* did, for the *Flook* invention was at least directed to the narrower domain of signaling dangers in operating a catalytic converter.

* * *

Today, the Court once again declines to impose limitations on the Patent Act that are inconsistent with the Act's text. The patent application here can be rejected under our precedents on the unpatentability of abstract ideas. The Court, therefore, need not define further what constitutes a patentable "process," beyond pointing to the definition of that term provided in §100(b) and looking to the guideposts in *Benson*, *Flook*, and *Diehr*.

And nothing in today's opinion should be read as endorsing interpretations of §101 that the Court of Appeals for the Federal Circuit has used in the past. See, e.g., *State Street*, 149 F. 3d, at 1373; *AT&T Corp.*, 172 F. 3d, at 1357. It may be that the Court of Appeals thought it needed to make the machine-or-transformation test exclusive precisely because its case law had not adequately identified less extreme means of restricting business method patents, including (but not limited to) application of our opinions in *Benson*, *Flook*, and *Diehr*. In disapproving an exclusive machine-or-transformation test, we by no means foreclose the Federal Circuit's development of other limiting criteria that further the purposes of the Patent Act and are not inconsistent with its text.

The judgment of the Court of Appeals is affirmed.

It is so ordered.

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SUPREME COURT OF THE UNITED STATES

No. 08–964

BERNARD L. BILSKI AND RAND A. WARSAW,
PETITIONERS *v.* DAVID J. KAPPOS, UNDER
SECRETARY OF COMMERCE FOR INTEL-
LECTUAL PROPERTY AND DIRECTOR,
PATENT AND TRADEMARK OFFICE

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF
APPEALS FOR THE FEDERAL CIRCUIT

[June 28, 2010]

JUSTICE STEVENS, with whom JUSTICE GINSBURG, JUSTICE BREYER, and JUSTICE SOTOMAYOR join, concurring in the judgment.

In the area of patents, it is especially important that the law remain stable and clear. The only question presented in this case is whether the so-called machine-or-transformation test is the exclusive test for what constitutes a patentable “process” under 35 U. S. C. §101. It would be possible to answer that question simply by holding, as the entire Court agrees, that although the machine-or-transformation test is reliable in most cases, it is not the *exclusive* test.

I agree with the Court that, in light of the uncertainty that currently pervades this field, it is prudent to provide further guidance. But I would take a different approach. Rather than making any broad statements about how to define the term “process” in §101 or tinkering with the bounds of the category of unpatentable, abstract ideas, I would restore patent law to its historical and constitutional moorings.

For centuries, it was considered well established that a series of steps for conducting business was not, in itself,

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patentable. In the late 1990's, the Federal Circuit and others called this proposition into question. Congress quickly responded to a Federal Circuit decision with a stopgap measure designed to limit a potentially significant new problem for the business community. It passed the First Inventors Defense Act of 1999 (1999 Act), 113 Stat. 1501A–555 (codified at 35 U. S. C. §273), which provides a limited defense to claims of patent infringement, see §273(b), for “method[s] of doing or conducting business,” §273(a)(3). Following several more years of confusion, the Federal Circuit changed course, overruling recent decisions and holding that a series of steps may constitute a patentable process only if it is tied to a machine or transforms an article into a different state or thing. This “machine-or-transformation test” excluded general methods of doing business as well as, potentially, a variety of other subjects that could be called processes.

The Court correctly holds that the machine-or-transformation test is not the sole test for what constitutes a patentable process; rather, it is a critical clue.¹ But the Court is quite wrong, in my view, to suggest that any series of steps that is not itself an abstract idea or law of nature may constitute a “process” within the meaning of §101. The language in the Court's opinion to this effect can only cause mischief. The wiser course would have been to hold that petitioners' method is not a “process” because it describes only a general method of engaging in business transactions—and business methods are not patentable. More precisely, although a process is not patent-ineligible simply because it is useful for conducting business, a claim that merely describes a method of doing

¹ Even if the machine-or-transformation test may not define the scope of a patentable process, it would be a grave mistake to assume that anything with a “useful, concrete and tangible result,” *State Street Bank & Trust v. Signature Financial Group, Inc.*, 149 F. 3d 1368, 1373 (CA Fed. 1998), may be patented.

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business does not qualify as a “process” under §101.

I

Although the Court provides a brief statement of facts, *ante*, at 1–4, a more complete explication may be useful for those unfamiliar with petitioners’ patent application and this case’s procedural history.

Petitioners’ patent application describes a series of steps for managing risk amongst buyers and sellers of commodities. The general method, described in Claim 1, entails “managing the consumption risk costs of a commodity sold by a commodity provider at a fixed price,” and consists of the following steps:

“(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 consumers;

“(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 balances the risk position of said series of consumer transactions.” App. 19–20.

Although the patent application makes clear that the “method can be used for any commodity to manage consumption risk in a fixed bill price product,” *id.*, at 11, it includes specific applications of the method, particularly in the field of energy, as a means of enabling suppliers and consumers to minimize the risks resulting from fluctuations in demand during specified time periods. See *id.*, at 20–22. Energy suppliers and consumers may use that

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method to hedge their risks by agreeing upon a fixed series of payments at regular intervals throughout the year instead of charging or paying prices that fluctuate in response to changing weather conditions. The patent application describes a series of steps, including the evaluation of historical costs and weather variables and the use of economic and statistical formulas, to analyze these data and to estimate the likelihood of certain outcomes. See *id.*, at 12–19.

The patent examiner rejected petitioners' application on the ground that it "is not directed to the technological arts," insofar as it "is not implemented on a specific apparatus and merely manipulates [an] abstract idea and solves a purely mathematical problem without any limitation to a practical application." App. to Pet. for Cert. 148a.

The Board of Patent Appeals and Interferences (Board) affirmed the examiner's decision, but it rejected the position that a patentable process must relate to "technological arts" or be performed on a machine. *Id.*, at 180a–181a. Instead, the Board denied petitioners' patent on two alternative, although similar, grounds: first, that the patent involves only mental steps that do not transform physical subject matter, *id.*, at 181a–184a; and, second, that it is directed to an "abstract idea," *id.*, at 184a–187a.

Petitioners appealed to the United States Court of Appeals for the Federal Circuit. After briefing and argument before a three-judge panel, the court *sua sponte* decided to hear the case en banc and ordered the parties to address: (1) whether petitioners' "claim 1 . . . claims patent-eligible subject matter under 35 U. S. C. §101"; (2) "[w]hat standard should govern in determining whether a process is patent-eligible subject matter"; (3) "[w]hether the claimed subject matter is not patent-eligible because it constitutes an abstract idea or mental process"; (4) "[w]hether a method or process must result in a physical transformation of an article or be tied to a machine to be patent-

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eligible subject matter”; and (5) whether the court’s decisions in *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, 149 F. 3d 1368 (1998) (*State Street*), and *AT&T Corp. v. Excel Communications, Inc.*, 172 F. 3d 1352 (1999), should be overruled in any respect. App. to Pet. for Cert. 144a–145a.

The en banc Court of Appeals affirmed the Board’s decision. Eleven of the twelve judges agreed that petitioners’ claims do not describe a patentable “process,” §101. Chief Judge Michel’s opinion, joined by eight other judges, rejected several possible tests for what is a patent-eligible process, including whether the patent produces a “useful, concrete and tangible result,” whether the process relates to “technological arts,” and “categorical exclusions” for certain processes such as business methods. *In re Bilski*, 545 F. 3d 943, 959–960 (2008). Relying on several of our cases in which we explained how to differentiate a claim on a “fundamental principle” from a claim on a “process,” the court concluded that 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.” *Id.*, at 954–955. The court further concluded that this “machine-or-transformation test” is “the sole test governing §101 analyses,” *id.*, at 955 (emphasis added), and therefore the “test for determining patent eligibility of a process under §101,” *id.*, at 956. Applying that test, the court held that petitioners’ claim is not a patent-eligible process. *Id.*, at 963–966.

In a separate opinion reaching the same conclusion, Judge Dyk carefully reviewed the history of American patent law and English precedents upon which our law is based, and found that “the unpatentability of processes not involving manufactures, machines, or compositions of matter has been firmly embedded . . . since the time of the Patent Act of 1793.” *Id.*, at 966. Judge Dyk observed,

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moreover, that “[t]here is no suggestion in any of this early consideration of process patents that processes for organizing human activity were or ever had been patentable.” *Id.*, at 972.

Three judges wrote dissenting opinions, although two of those judges agreed that petitioners’ claim is not patent eligible. Judge Mayer would have held that petitioners’ claim “is not eligible for patent protection because it is directed to a method of conducting business.” *Id.*, at 998. He submitted that “[t]he patent system is intended to protect and promote advances in science and technology, not ideas about how to structure commercial transactions.” *Ibid.* “Affording patent protection to business methods lacks constitutional and statutory support, serves to hinder rather than promote innovation[,] and usurps that which rightfully belongs in the public domain.” *Ibid.*

Judge Rader would have rejected petitioners’ claim on the ground that it seeks to patent merely an abstract idea. *Id.*, at 1011.

Only Judge Newman disagreed with the court’s conclusion that petitioners’ claim seeks a patent on ineligible subject matter. Judge Newman urged that the en banc court’s machine-or-transformation test ignores the text and history of §101, *id.*, at 977–978, 985–990, is in tension with several of decisions by this Court, *id.*, at 978–985, and the Federal Circuit, *id.*, at 990–992, and will invalidate thousands of patents that were issued in reliance on those decisions, *id.*, at 992–994.

II

Before explaining in more detail how I would decide this case, I will comment briefly on the Court’s opinion. The opinion is less than pellucid in more than one respect, and, if misunderstood, could result in confusion or upset settled areas of the law. Three preliminary observations may be clarifying.

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First, the Court suggests that the terms in the Patent Act must be read as lay speakers use those terms, and not as they have traditionally been understood in the context of patent law. See, e.g., *ante*, at 6 (terms in §101 must be viewed in light of their “ordinary, contemporary, common meaning”); *ante*, at 10 (patentable “method” is any “orderly procedure or process,” “regular way or manner of doing anything,” or “set form of procedure adopted in investigation or instruction” (internal quotation marks omitted)). As I will explain at more length in Part III, *infra*, if this portion of the Court’s opinion were taken literally, the results would be absurd: Anything that constitutes a series of steps would be patentable so long as it is novel, nonobvious, and described with specificity. But the opinion cannot be taken literally on this point. The Court makes this clear when it accepts that the “atextual” machine-or-transformation test, *ante*, at 12, is “useful and important,” *ante*, at 8, even though it “violates” the stated “statutory interpretation principles,” *ante*, at 6; and when the Court excludes processes that tend to pre-empt commonly used ideas, see *ante*, at 14–15.

Second, in the process of addressing the sole issue presented to us, the opinion uses some language that seems inconsistent with our centuries-old reliance on the machine-or-transformation criteria as clues to patentability. Most notably, the opinion for a plurality suggests that these criteria may operate differently when addressing technologies of a recent vintage. See *ante*, at 8–9 (machine-or-transformation test is useful “for evaluating processes similar to those in the Industrial Age,” but is less useful “for determining the patentability of inventions in the Information Age”). In moments of caution, however, the opinion for the Court explains—correctly—that the Court is merely restoring the law to its historical state of rest. See *ante*, at 8 (“This Court’s precedents establish that the machine-or-transformation test is a useful and

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important clue, an investigative tool, for determining whether some claimed inventions are processes under §101”). Notwithstanding this internal tension, I understand the Court’s opinion to hold only that the machine-or-transformation test remains an important test for patentability. Few, if any, processes cannot effectively be evaluated using these criteria.

Third, in its discussion of an issue not contained in the questions presented—whether the particular series of steps in petitioners’ application is an abstract idea—the Court uses language that could suggest a shift in our approach to that issue. Although I happen to agree that petitioners seek to patent an abstract idea, the Court does not show how this conclusion follows “clear[ly],” *ante*, at 15, from our case law. The patent now before us is not for “[a] principle, in the abstract,” or a “fundamental truth.” *Parker v. Flook*, 437 U. S. 584, 589 (1978) (internal quotation marks omitted). Nor does it claim the sort of phenomenon of nature or abstract idea that was embodied by the mathematical formula at issue in *Gottschalk v. Benson*, 409 U. S. 63, 67 (1972), and in *Flook*.

The Court construes petitioners’ claims on processes for pricing as claims on “the basic concept of hedging, or protecting against risk,” *ante*, at 14, and thus discounts the application’s discussion of what sorts of data to use, and how to analyze those data, as mere “token postsolution components,” *ante*, at 15. In other words, the Court artificially limits petitioners’ claims to hedging, and then concludes that hedging is an abstract idea rather than a term that describes a category of processes including petitioners’ claims. Why the Court does this is never made clear. One might think that the Court’s analysis means that any process that utilizes an abstract idea is *itself* an unpatentable, abstract idea. But we have never suggested any such rule, which would undermine a host of patentable processes. It is true, as the Court observes,

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that petitioners' application is phrased broadly. See *ante*, at 14–15. But claim specification is covered by §112, not §101; and if a series of steps constituted an unpatentable idea merely because it was described without sufficient specificity, the Court could be calling into question some of our own prior decisions.² At points, the opinion suggests that novelty is the clue. See *ante*, at 14. But the fact that hedging is “long prevalent in our system of commerce,” *ibid.*, cannot justify the Court's conclusion, as “the proper construction of §101 . . . does not involve the familiar issu[e] of novelty” that arises under §102. *Flook*, 437 U. S., at 588. At other points, the opinion for a plurality suggests that the analysis turns on the category of patent involved. See, *e.g.*, *ante*, at 12 (courts should use the abstract-idea rule as a “too[l]” to set “a high enough bar” “when considering patent applications of this sort”). But we have never in the past suggested that the inquiry varies by subject matter.

The Court, in sum, never provides a satisfying account of what constitutes an unpatentable abstract idea. Indeed, the Court does not even explain if it is using the machine-or-transformation criteria. The Court essentially asserts its conclusion that petitioners' application claims an abstract idea. This mode of analysis (or lack thereof) may have led to the correct outcome in this case, but it also means that the Court's musings on this issue stand for very little.

²For example, a rule that broadly-phrased claims cannot constitute patentable processes could call into question our approval of Alexander Graham Bell's famous fifth claim on “[t]he method of, and apparatus for, transmitting vocal or other sounds telegraphically, as herein described, by causing electrical undulations, similar in form to the vibrations of the air accompanying the said vocal or other sounds, substantially as set forth,” *The Telephone Cases*, 126 U. S. 1, 531 (1888).

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III

I agree with the Court that the text of §101 must be the starting point of our analysis. As I shall explain, however, the text must not be the end point as well.

Pursuant to its power “[t]o promote the Progress of . . . useful Arts, by securing for limited Times to . . . Inventors the exclusive Right to their . . . Discoveries,” U. S. Const., Art. I, §8, cl. 8, Congress has passed a series of patent laws that grant certain exclusive rights over certain inventions and discoveries as a means of encouraging innovation. In the latest iteration, the Patent Act of 1952 (1952 Act), Congress has provided that “[w]hoever 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,” 35 U. S. C. §101, which include that the patent also be novel, §102, and nonobvious, §103. The statute thus authorizes four categories of subject matter that may be patented: processes, machines, manufactures, and compositions of matter. Section 101 imposes a threshold condition. “[N]o patent is available for a discovery, however useful, novel, and nonobvious, unless it falls within one of the express categories of patentable subject matter.” *Kewanee Oil Co. v. Bicron Corp.*, 416 U. S. 470, 483 (1974).

Section 101 undoubtedly defines in “expansive terms” the subject matter eligible for patent protection, as the statute was meant to ensure that “ingenuit[ies] receive a liberal encouragement.” *Diamond v. Chakrabarty*, 447 U. S. 303, 308–309 (1980); see also *J. E. M. Ag Supply, Inc. v. Pioneer Hi-Bred Int’l, Inc.*, 534 U. S. 124, 130 (2001). Nonetheless, not every new invention or discovery may be patented. Certain things are “free for all to use.” *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U. S.

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141, 151 (1989).³

The text of the Patent Act does not on its face give much guidance about what constitutes a patentable process. The statute defines the term “process” as a “process, art or method [that] includes a new use of a known process, machine, manufacture, composition of matter, or material.” §100(b). But, this definition is not especially helpful, given that it also uses the term “process” and is therefore somewhat circular.

As lay speakers use the word “process,” it constitutes any series of steps. But it has always been clear that, as used in §101, the term does not refer to a “‘process’ in the ordinary sense of the word,” *Flook*, 437 U. S., at 588; see also *Corning v. Burden*, 15 How. 252, 268 (1854) (“[T]he term process is often used in a more vague sense, in which it cannot be the subject of a patent”). Rather, as discussed in some detail in Part IV, *infra*, the term “process” (along with the definitions given to that term) has long accumulated a distinctive meaning in patent law. When the term was used in the 1952 Patent Act, it was neither intended nor understood to encompass *any* series of steps or any *way* to do any *thing*.

With that understanding in mind, the Government has

³The Court quotes our decision in *Diamond v. Chakrabarty*, 447 U. S. 303 (1980), for the proposition that, “[i]n choosing such expansive terms . . . modified by the comprehensive ‘any,’ Congress plainly contemplated that the patent laws would be given wide scope.” *Ante*, at 4. But the Court fails to mention which terms we were discussing in *Chakrabarty*: the terms “manufacture” and “composition of matter.” See 447 U. S., at 308 (“In choosing such expansive terms as ‘manufacture’ and ‘composition of matter,’ modified by the comprehensive ‘any,’ Congress plainly contemplated that the patent laws would be given wide scope”). As discussed herein, Congress’ choice of the term “process” reflected a background understanding of what sorts of series of steps could be patented, and likely reflected an intentional design to codify that settled, judicial understanding. This may not have been the case with the terms at issue in *Chakrabarty*.

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argued that because “a word” in a statute “is given more precise content by the neighboring words with which it” associates, *United States v. Williams*, 553 U. S. 285, 294 (2008), we may draw inferences from the fact that “[t]he other three statutory categories of patent-eligible subject matter identified in Section 101—‘machine, manufacture, or composition of matter’—all ‘are things made by man, and involve technology.’” Brief for Respondent 26. Specifically, the Government submits, we may infer “that the term ‘process’ is limited to technological and industrial methods.” *Ibid.* The Court rejects this submission categorically, on the ground that “§100(b) already explicitly defines the term ‘process.’” *Ante*, at 6. But §100(b) defines the term “process” by using the term “process,” as well as several other general terms. This is not a case, then, in which we must *either* “follow” a definition, *ante*, at 7, *or* rely on neighboring words to understand the scope of an ambiguous term. The definition itself contains the very ambiguous term that we must define.

In my view, the answer lies in between the Government’s and the Court’s positions: The terms adjacent to “process” in §101 provide a clue as to its meaning, although not a very strong clue. Section 101’s list of categories of patentable subject matter is phrased in the disjunctive, suggesting that the term “process” has content distinct from the other items in the list. It would therefore be illogical to “rob” the word “process” of all independent meaning. *Reiter v. Sonotone Corp.*, 442 U. S. 330, 338 (1979). Moreover, to the extent we can draw inferences about what is a “process” from common attributes in §101, it is a dangerous endeavor to do so on the basis of a perceived overarching theme. Given the many moving parts at work in the Patent Act, there is a risk of merely confirming our preconceived notions of what should be patentable or of seeing common attributes that track “the familiar issues of novelty and obviousness” that arise

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under other sections of the statute but are not relevant to §101, *Flook*, 437 U. S., at 588. The placement of “process” next to other items thus cannot prove that the term is limited to any particular categories; it does, however, give reason to be skeptical that the scope of a patentable “process” extends to cover any series of steps at all.

The Court makes a more serious interpretive error. As briefly discussed in Part II, *supra*, the Court at points appears to reject the well-settled proposition that the term “process” in §101 is not a “process” in the ordinary sense of the word,” *Flook*, 437 U. S., at 588. Instead, the Court posits that the word “process” must be understood in light of its “ordinary, contemporary, common meaning,” *ante*, at 6 (internal quotation marks omitted). Although this is a fine approach to statutory interpretation in general, it is a deeply flawed approach to a statute that relies on complex terms of art developed against a particular historical background.⁴ Indeed, the approach would render §101 almost comical. A process for training a dog, a series of dance steps, a method of shooting a basketball, maybe even words, stories, or songs if framed as the steps of typing letters or uttering sounds—all would be patent-eligible. I am confident that the term “process” in §101 is not nearly so capacious.⁵

⁴For example, if this Court were to interpret the Sherman Act according to the Act’s plain text, it could prohibit “the entire body of private contract,” *National Soc. of Professional Engineers v. United States*, 435 U. S. 679, 688 (1978).

⁵The Court attempts to avoid such absurd results by stating that these “[c]oncerns” “can be met by making sure that the claim meets the requirements of §101.” *Ante*, at 6. Because the only limitation on the plain meaning of “process” that the Court acknowledges explicitly is the bar on abstract ideas, laws of nature, and the like, it is presumably this limitation that is left to stand between all conceivable human activity and patent monopolies. But many processes that would make for absurd patents are not abstract ideas. Nor can the requirements of novelty, nonobviousness, and particular description pick up the slack.

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So is the Court, perhaps. What is particularly incredible about the Court's stated method of interpreting §101 (other than that the method itself may be patent-eligible under the Court's theory of §101) is that the Court deviates from its own professed commitment to "ordinary, contemporary, common meaning." As noted earlier, the Court accepts a role for the "atextual" machine-or-transformation "clue." *Ante*, at 12, 7. The Court also accepts that we have "foreclose[d] a purely literal reading of §101," *Flook*, 437 U. S., at 589, by holding that claims that are close to "laws of nature, natural phenomena, and abstract ideas," *Diamond v. Diehr*, 450 U. S. 175, 185 (1981), do not count as "processes" under §101, even if they can be colloquially described as such.⁶ The Court attempts to justify this latter exception to §101 as "a matter of statutory *stare decisis*." *Ante*, at 5. But it is strange to think that the very same term must be interpreted literally on some occasions, and in light of its historical usage on others.

In fact, the Court's understanding of §101 is even more remarkable because its willingness to *exclude* general principles from the provision's reach is in tension with its apparent willingness to *include* steps for conducting business. The history of patent law contains strong norms against patenting these two categories of subject matter. Both norms were presumably incorporated by Congress into the Patent Act in 1952.

Cf. *ante*, at 12–13 (plurality opinion). A great deal of human activity was at some time novel and nonobvious.

⁶Curiously, the Court concedes that "these exceptions are not required by the statutory text," but urges that "they are *consistent* with the notion that a patentable process must be 'new and useful.'" *Ante*, at 5 (emphasis added). I do not see how these exceptions find a textual home in the term "new and useful." The exceptions may be consistent with those words, but they are sometimes inconsistent with the "ordinary, contemporary, common meaning," *ante*, at 6, 10 (internal quotation marks omitted), of the words "process" and "method."

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IV

Because the text of §101 does not on its face convey the scope of patentable processes, it is necessary, in my view, to review the history of our patent law in some detail. This approach yields a much more straightforward answer to this case than the Court's. As I read the history, it strongly supports the conclusion that a method of doing business is not a "process" under §101.

I am, of course, mindful of the fact that §101 "is a dynamic provision designed to encompass new and unforeseen inventions," and that one must therefore view historical conceptions of patent-eligible subject matter at an appropriately high level of generality. *J. E. M. Ag Supply*, 534 U. S., at 135; see also *Chakrabarty*, 447 U. S., at 315–316. But it is nonetheless significant that while people have long innovated in fields of business, methods of doing business fall outside of the subject matter that has "historically been eligible to receive the protection of our patent laws," *Diehr*, 450 U. S., at 184, and likely go beyond what the modern patent "statute was enacted to protect," *Flook*, 437 U. S., at 593. It is also significant that when Congress enacted the latest Patent Act, it did so against the background of a well-settled understanding that a series of steps for conducting business cannot be patented. These considerations ought to guide our analysis. As Justice Holmes noted long ago, sometimes, "a page of history is worth a volume of logic." *New York Trust Co. v. Eisner*, 256 U. S. 345, 349 (1921).

English Backdrop

The Constitution's Patent Clause was written against the "backdrop" of English patent practices, *Graham v. John Deere Co. of Kansas City*, 383 U. S. 1, 5 (1966), and early American patent law was "largely based on and incorporated" features of the English patent system, E. Walterscheid, *To Promote the Progress of Useful Arts:*

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American Patent Law and Administration, 1789–1836, p.109 (1998) (hereinafter Walterscheid, To Promote the Progress).⁷ The governing English law, the Statute of Monopolies, responded to abuses whereby the Crown would issue letters patent, “granting monopolies to court favorites in goods or businesses which had long before been enjoyed by the public.” *Graham*, 383 U. S., at 5. The statute generally prohibited the Crown from granting such exclusive rights, 21 Jam. 1, c. 3, §1 (1623), in 4 Statutes of the Realm 1213 (reprint 1963), but it contained exceptions that, *inter alia*, permitted grants of exclusive rights to the “working or making of any manner of new Manufacture.” §6.

Pursuant to that provision, patents issued for the “mode, method, or way of manufacturing,” F. Campin, Law of Patents for Inventions 11 (1869) (emphasis deleted), and English courts construed the phrase “working or making of any manner of new manufactures” to encompass manufacturing processes, see, *e.g.*, *Boulton v. Bull*, 2 H. Bl. 463, 471, 492, 126 Eng. Rep. 651, 655, 666 (C. P. 1795) (holding that the term “manufacture” “applied not only to things made, but to the practice of making, to principles carried into practice in a new manner, to new results of principles carried into practice”). Thus, English courts upheld James Watt’s famous patent on a method for reducing the consumption of fuel in steam engines,⁸ as

⁷See *Pennock v. Dialogue*, 2 Pet. 1, 18 (1829) (“[M]any of the provisions of our patent act are derived from the principles and practice, which have prevailed in the construction of that of England”); Proceedings in Congress During the Years 1789 and 1790 Relating to the First Patent and Copyright Laws, 22 J. Pat. Off. Soc. 352, 363 (1940) (explaining that the 1790 Patent Act was “framed according to the Course of Practice in the English Patent Office”); see also Walterscheid, The Early Evolution of the United States Patent Law: Antecedents, 76 J. Pat. & Trademark Off. Soc. 697, 698 (1994) (describing the role of the English backdrop).

⁸See *Hornblower v. Boulton*, 8 T. R. 95 (K. B. 1799).

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well as a variety of patents issued for methods of synthesizing substances or building mechanical devices.⁹

Although it is difficult to derive a precise understanding of what sorts of methods were patentable under English law, there is no basis in the text of the Statute of Monopolies, nor in pre-1790 English precedent, to infer that business methods could qualify.¹⁰ There was some debate throughout the relevant time period about what processes could be patented. But it does not appear that anyone seriously believed that one could patent “a method for organizing human activity.” 545 F. 3d, at 970 (Dyk, J., concurring).¹¹

There were a small number of patents issued between 1623 and 1790 relating to banking or lotteries and one for a method of life insurance,¹² but these did not constitute

⁹See, e.g., *Roebuck and Garbett v. William Stirling & Son* (H. L. 1774), reprinted in 1 T. Webster, Reports and Notes of Cases on Letters Patent for Inventions 45 (1844) (“method of making acid spirit by burning sulphur and saltpetre, and collecting the condensed fumes”); *id.*, at 77 (“method of producing a yellow colour for painting in oil or water, making white lead, and separating the mineral alkali from common salt, all to be performed in one single process”); see also C. MacLeod, *Inventing the Industrial Revolution: The English Patent System, 1660–1800*, pp. 84–93, 100–104, 109–110, 152–155 (1988) (listing patents) (hereinafter MacLeod).

¹⁰Some English cases made reference to the permissibility of patents over new “trades.” But so far as I can tell, the term “trade” referred not to the methods of conducting business but rather to methods of making and using physical items or to the object of the trade. See, e.g., *Clothworkers of Ipswich Case*, 78 Eng. Rep. 147, 148 (K. B. 1603) (“[I]f a man hath brought in a new invention and a new trade within the kingdom . . . [the King] may grant by charter unto him”).

¹¹See also Pollack, *The Multiple Unconstitutionality of Business Method Patents: Common Sense, Congressional Consideration, and Constitutional History*, 28 Rutgers Computer & Tech. L. J. 61, 94–96 (2002) (hereinafter Pollack) (describing English practice).

¹²See *id.*, at 95; B. Woodcroft, *Alphabetical Index of Patentees of Inventions, from March 2, 1617 (14 James I) to October 1, 1852 (16 Victoriae)* 383, 410 (2d ed. 1969) (hereinafter Woodcroft).

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the “prevail[ing]” “principles and practice” in England on which our patent law was based, *Pennock v. Dialogue*, 2 Pet. 1, 18 (1829). Such patents were exceedingly rare, and some of them probably were viewed not as inventions or discoveries but rather as special state privileges¹³ that until the mid-1800’s were recorded alongside inventions in the patent records, see *MacLeod* 1–2 (explaining that various types of patents were listed together). It appears that the only English patent of the time that can fairly be described as a business method patent was one issued in 1778 on a “Plan for assurances on lives of persons from 10 to 80 years of Age.” *Woodcroft* 324.¹⁴ And “[t]here is no indication” that this patent “was ever enforced or its validity tested,” 545 F. 3d, at 974 (Dyk, J., concurring); the patent may thus have represented little more than the whim—or error—of a single patent clerk.¹⁵

In any event, these patents (or patent) were probably not known to the Framers of early patent law. In an era before computerized databases, organized case law, and treatises,¹⁶ the American drafters probably would have

¹³See, e.g., C. Ewen, *Lotteries and Sweepstakes* 70–71 (1932) (describing the “letters patent” to form a colony in Virginia and to operate lotteries to fund that colony).

¹⁴See also Renn, *John Knox’s Plan for Insuring Lives: A Patent of Invention in 1778*, 101 *J. Inst. Actuaries* 285, 286 (1974) (hereinafter *Renn*) (describing the patent).

¹⁵“The English patent system” at that time “was one of simple registration. Extensive scrutiny was not expected of the law officers administering it.” *MacLeod* 41. Thus, as one scholar suggested of the patent on life insurance, “perhaps the Law Officer was in a very good humour that day, or perhaps he had forgotten the wording of the statute; most likely he was concerned only with the promised ‘very considerable Consumption of [Revenue] Stamps’ which [the patent holder] declared, would ‘contribute to the increase of the Public Revenues.’” *Renn* 285.

¹⁶See *Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 381 (1996) (“[T]he state of patent law in the common-law courts before 1800 led one historian to observe that ‘the reported cases are destitute of any decision of importance’” (quoting Hulme, *On the Consideration of the*

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known about particular patents only if they were well publicized or subject to reported litigation. So far as I am aware, no published cases pertained to patents on business methods.

Also noteworthy is what was *not* patented under the English system. During the 17th and 18th centuries, Great Britain saw innovations in business organization,¹⁷ business models,¹⁸ management techniques,¹⁹ and novel solutions to the challenges of operating global firms in which subordinate managers could be reached only by a long sea voyage.²⁰ Few if any of these methods of conducting business were patented.²¹

Patent Grant, Past and Present, 13 L. Q. Rev. 313, 318 (1897)); MacLeod 1, 61–62 (explaining the dearth of clear case law); see also *Boulton v. Bull*, 2 H. Bl. 463, 491, 126 Eng. Rep. 651, 665 (C. P. 1795) (Eyre, C. J.) (“Patent rights are no where that I can find accurately discussed in our books”).

¹⁷See, e.g., A. DuBois, *The English Business Company After the Bubble Act, 1720–1800*, pp. 38–40, 435–438 (1938); Harris, *The Bubble Act: Its Passage and its Effects on Business Organization*, 54 J. Econ. Hist. 610, 624–625 (1994).

¹⁸See Pollack 97–100. For example, those who held patents on oil lamps developed firms that contracted to provide street lighting. See M. Falkus, *Lighting in the Dark Ages of English Economic History: Town Streets before the Industrial Revolutions*, in *Trade, Government, and Economy in Pre-Industrial England* 249, 255–257, 259–260 (D. Coleman & A. John eds. 1976).

¹⁹See, e.g., G. Hammersley, *The State and the English Iron Industry in the Sixteenth and Seventeenth Centuries*, in *id.*, at 166, 173, 175–178 (describing the advent of management techniques for efficiently running a major ironworks).

²⁰See, e.g., Carlos & Nicholas, *Agency Problems in Early Chartered Companies: The Case of the Hudson’s Bay Company*, 50 J. Econ. Hist. 853, 853–875 (1990).

²¹Nor, so far as I can tell, were business method patents common in the United States in the brief period between independence and the creation of our Constitution—despite the fact that it was a time of great business innovation, including new processes for engaging in risky trade and transport, one of which has been called “the quintessential business innovation of the 1780s.” T. Doerflinger, *A Vigorous Spirit of*

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Early American Patent Law

At the Constitutional Convention, the Founders decided to give Congress a patent power so that it might “promote the Progress of . . . useful Arts.” Art. I, §8, cl. 8. There is little known history of that Clause.²² We do know that the Clause passed without objection or debate.²³ This is striking because other proposed powers, such as a power to grant charters of incorporation, generated discussion about the fear that they might breed “monopolies.”²⁴ Indeed, at the ratification conventions, some States recommended amendments that would have prohibited Congress from granting “exclusive advantages of commerce.”²⁵ If the original understanding of the Patent

Enterprise: Merchants and Economic Development in Revolutionary Philadelphia 291 (1986) (describing new methods of conducting and financing trade with China).

²²See Seidel, *The Constitution and a Standard of Patentability*, 48 J. Pat. Off. Soc. 5, 10 (1966) (hereinafter Seidel); Walterscheid, *To Promote the Progress of Science and Useful Arts: The Background and Origin of the Intellectual Property Clause of the United States Constitution*, 2 J. Intell. Prop. L. 1, 26 (1994) (hereinafter Walterscheid, *Background and Origin*); Walterscheid, *To Promote the Progress* 59, and n. 12; Prager, *A History of Intellectual Property From 1545 to 1787*, 26 J. Pat. Off. Soc. 711, 746 (1944).

²³Walterscheid, *Background and Origin* 26; 2 *Records of the Federal Convention of 1787*, pp. 509–510 (M. Farrand ed. 1966).

²⁴J. Madison, *Notes of Debates in the Federal Convention of 1787*, pp. 638–639 (Ohio Univ. Press ed. 1966).

²⁵See Walterscheid, *Background and Origin* 38, n. 124, 55–56 (collecting sources); see also *The Objections of Hon. George Mason, One of the Delegates from Virginia, in the Late Continental Convention, to the Proposed Federal Constitution, Assigned as His Reasons For Not Signing the Same*, 2 *American Museum or Repository of Ancient and Modern Fugitive Pieces, etc.* 534, 536 (1787) (reprint 1965); *Ratification of the New Constitution by the Convention of the State of New York*, 4 *id.*, at 153, 156 (1789); *Remarks on the Amendments to the Federal Constitution Proposed by The Conventions of Massachusetts, New Hampshire, New York, Virginia, South and North Carolina, with the Minorities of Pennsylvania and Maryland by the Rev. Nicholas Collin*,

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Clause included the authority to patent methods of doing business, it might not have passed so quietly.

In 1790, Congress passed the first Patent Act, an “Act to promote the progress of useful Arts” that authorized patents for persons who had “invented or discovered any useful art, manufacture, engine, machine, or device, or any improvement therein not before known or used,” if “the invention or discovery [was] sufficiently useful and important.” 1 Stat. 109–110. Three years later, Congress passed the Patent Act of 1793 and slightly modified the language to cover “any new and useful art, machine, manufacture or composition of matter, or any new and useful improvement on any art, machine, manufacture or composition of matter.” 1 Stat. 319.

The object of the constitutional patent power and the statutory authorization for process patents in the early patent Acts was the term “useful art.” It is not evident from the face of the statutes or the Constitution whether the objects of the patent system were “arts” that are also useful, or rather a more specific category, the class of arts known as “useful arts.” Cf. *Graham*, 383 U. S., at 12 (describing the “‘new and useful’ tests which have always existed in the statutory scheme” and apply to all categories of subject matter). However, we have generally assumed that “useful art,” at least as it is used in the Patent Act, is itself a term of art. See *Burden*, 15 How., at 267–268.

The word “art” and the phrase “useful arts” are subject to many meanings. There is room on the margins to debate exactly what qualifies as either. There is room, moreover, to debate at what level of generality we should understand these broad and historical terms, given that “[a] rule that unanticipated inventions are without protection would conflict with the core concept of the patent

D. D., 6 *id.*, at 303, 303.

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law,” *Chakrabarty*, 447 U. S., at 316. It appears, however, that regardless of how one construes the term “useful arts,” business methods are not included.

Noah Webster’s first American dictionary²⁶ defined the term “art” as the “disposition or modification of *things* by human skill, to answer the purpose intended,” and differentiated between “useful or mechanic” arts, on the one hand, and “liberal or polite” arts, on the other. 1 An American Dictionary of the English Language (1828) (facsimile edition) (emphasis added). Although other dictionaries defined the word “art” more broadly,²⁷ Webster’s definition likely conveyed a message similar to the meaning of the word “manufactures” in the earlier English statute. And we know that the term “useful arts” was used in the founding era to refer to manufacturing and similar applied trades.²⁸ See Coulter, *The Field of the*

²⁶Some scholars suggest that Webster’s “close proximity to the Constitutional Convention coupled with his familiarity with the delegates makes it likely that he played some indirect role in the development” of the Constitution’s Intellectual Property Clause—a Clause that established not only the power to create patents but also copyrights, a subject in which Webster had great interest. Donner, *Copyright Clause of the U. S. Constitution: Why Did the Framers Include It With Unanimous Approval?* 36 *Am. J. Legal. Hist.* 361, 372 (1992). But there is no direct evidence of this fact. See Walterscheid, *Background and Origin* 40–41.

²⁷See, e.g., 1 S. Johnson, *Dictionary of the English Language* (1773) (reprint 1978) (listing as definitions of an “art”: “[t]he power of doing something not taught by nature and instinct,” “[a] science; as, the liberal *arts*,” “[a] trade,” “[a]rtfulness; skill; dexterity,” “[c]unning,” and “[s]peculation”). One might question the breadth of these definitions. This same dictionary offered as an example of “doing something not taught by nature and instinct,” the art of “dance”; and as an example of a “trade,” the art of “making sugar.” *Ibid.*

²⁸For examples of this usage, see *Book of Trades or Library of Useful Arts* (1807) (describing in a three-volume work 68 trades, each of which is the means of creating a product, such as feather worker or cork cutter); 1 J. Bigelow, *The Useful Arts Considered in Connexion with the Applications of Science* (1840) (surveying a history of what we would

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Statutory Useful Arts, 34 J. Pat. Off. Soc. 487, 493–500 (1952); see also Thomas, The Patenting of the Liberal Professions, 40 Boston College L. Rev. 1139, 1164 (1999) (“[The Framers of the Constitution] undoubtedly contemplated the industrial, mechanical and manual arts of the late eighteenth Century, in contrast to the seven ‘liberal arts’ and the four ‘fine arts’ of classical learning”). Indeed, just days before the Constitutional Convention, one delegate listed examples of American progress in “manufactures and the useful arts,” all of which involved the creation or transformation of physical substances. See T. Coxe, An Address to an Assembly of the Friends of American Manufactures 17–18 (1787) (listing, *inter alia*, meal, ships, liquors, potash, gunpowder, paper, starch, articles of iron, stone work, carriages, and harnesses). Numerous scholars have suggested that the term “useful arts” was widely understood to encompass the fields that we would now describe as relating to technology or “technological arts.”²⁹

today call mechanics, technology, and engineering). See also D. Defoe, A General History of Discoveries and Improvements, in Useful Arts (1727); T. Coxe, An Address to an Assembly of the Friends of American Manufactures 17–18 (1787); G. Logan, A Letter to the Citizens of Pennsylvania, on the Necessity of Promoting Agriculture, Manufactures, and the Useful Arts 12–13 (2d ed. 1800); W. Kenrick, An Address to the Artists and Manufacturers of Great Britain 21–38 (1774); cf. *Corning v. Burden*, 15 How. 252, 267 (1854) (listing the “arts of tanning, dyeing, making water-proof cloth, vulcanizing India rubber, [and] smelting ores”).

²⁹See, e.g., 1 D. Chisum, Patents G1–23 (2010); Lutz, Patents and Science: A Clarification of the Patent Clause of the U. S. Constitution, 18 Geo. Wash. L. Rev. 50, 54 (1949–1950); Samuelson, *Benson* Revisited: The Case Against Patent Protection for Algorithms and Other Computer-Related Inventions, 39 Emory L. J. 1025, 1033, n. 24 (1990); Seidel 10, 13; see also *Great Atlantic & Pacific Tea Co. v. Supermarket Equipment Corp.*, 340 U. S. 147, 154 (1950) (Douglas, J., concurring) (explaining that in the Framers’ view, an “invention, to justify a patent, had to serve the ends of science—to push back the frontiers of chemis-

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Thus, fields such as business and finance were not generally considered part of the “useful arts” in the founding Era. See, e.g., *The Federalist* No. 8, p. 69 (C. Rossiter ed. 1961) (A. Hamilton) (distinguishing between “the arts of industry, and the science of finance”); 30 *The Writings of George Washington 1745–1799*, p. 186 (J. Fitzpatrick ed. 1939) (writing in a letter that “our commerce has been considerably curtailed,” but “the useful arts have been almost imperceptible pushed to a considerable degree of perfection”). Indeed, the same delegate to the Constitutional Convention who gave an address in which he listed triumphs in the useful arts distinguished between those arts and the conduct of business. He explained that investors were now attracted to the “manufactures and the useful arts,” much as they had long invested in “commerce, navigation, stocks, banks, and insurance companies.” T. Coxe, *A Statement of the Arts and Manufactures of the United States of America for the Year 1810*, (1814), in 2 *American State Papers, Finance* 666, 688 (1832).

Some scholars have remarked, as did Thomas Jefferson, that early patent statutes neither included nor reflected any serious debate about the precise scope of patentable

try, physics, and the like; to make a distinctive contribution to scientific knowledge”); *In re Waldbaum*, 457 F. 2d 997, 1003 (CCPA 1972) (Rich, J., concurring) (“The phrase “technological arts,” as we have used it, is synonymous with the phrase “useful arts” as it appears in Article I, Section 8 of the Constitution”); *Paulik v. Rizkalla*, 760 F. 2d 1270, 1276 (CA Fed. 1985) (explaining that “useful arts” is “the process today called technological innovation”); Thomas, *The Post-Industrial Patent System*, 10 *Fordham Intell. Prop. Media & Ent. L. J.* 3, 32–55 (1999) (cataloguing early understandings of technological arts). This view may be supported, for example, by an 1814 grant to Harvard University to create a “Professorship on the Application of Science to the Useful Arts,” something that today might be akin to applied science or engineering. See M. James, *Engineering an Environment for Change: Bigelow, Peirce, and Early Nineteenth-Century Practical Education at Harvard*, in *Science at Harvard University: Historical Perspectives* 59 (C. Elliott & M. Rossiter eds. 1992).

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subject matter. See, e.g., *Graham*, 383 U. S., at 9–10 (discussing Thomas Jefferson’s observations). It has been suggested, however, that “[p]erhaps this was in part a function of an understanding—shared widely among legislators, courts, patent office officials, and inventors—about what patents were meant to protect. Everyone knew that manufactures and machines were at the core of the patent system.” Merges, *Property Rights for Business Concepts and Patent System Reform*, 14 *Berkeley Tech. L. J.* 577, 585 (1999) (hereinafter *Merges*). Thus, although certain processes, such as those related to the technology of the time, might have been considered patentable, it is possible that “[a]gainst this background, it would have been seen as absurd for an entrepreneur to file a patent” on methods of conducting business. *Ibid.*

Development of American Patent Law

During the first years of the patent system, no patents were issued on methods of doing business.³⁰ Indeed, for some time, there were serious doubts as to “the patentability of processes per se,” as distinct from the physical end product or the tools used to perform a process. *Id.*, at 581–582.³¹

Thomas Jefferson was the “first administrator of our patent system” and “the author of the 1793 Patent Act.” *Graham*, 383 U. S., at 7. We have said that his “conclusions as to conditions of patentability . . . are worthy of note.” *Ibid.* at 7. During his time administering the system, Jefferson “saw clearly the difficulty” of deciding what

³⁰See Walterscheid, *To Promote the Progress* 173–178; Pollack 107–108.

³¹These doubts ended by the time of *Cochrane v. Deener*, 94 U. S. 780 (1877), in which we held that “a process may be patentable irrespective of the particular form of the instrumentalities used,” and therefore one may patent “an act, or series of acts, performed upon the subject matter to be transformed and reduced to a different state or thing.” *Id.*, at 788.

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should be patentable.³² *Id.*, at 9. He drafted the 1793 Act, *id.*, at 7, and, years later, explained that in that Act “the whole was turned over to the judiciary, to be matured into a system, under which every one might know when his actions were safe and lawful,” *id.*, at 10 (quoting Letter to Issac McPherson, in VI Writings of Thomas Jefferson 181–182 (H. Washington ed. 1861)). As the Court has explained, “Congress agreed with Jefferson . . . that the courts should develop additional conditions for patentability.” *Graham*, 383 U.S., at 10. Thus “[a]lthough the Patent Act was amended, revised or codified some 50 times between 1790 and 1950, Congress steered clear” of adding statutory requirements of patentability. *Ibid.* For nearly 160 years, Congress retained the term “useful arts,” see, e.g., Act of July 4, 1836, ch. 357, 5 Stat. 117, leaving “wide latitude for judicial construction . . . to keep pace with industrial development,” Berman, *Method Claims*, 17 J. Pat. Off. Soc. 713, 714 (1935) (hereinafter Berman).

Although courts occasionally struggled with defining what was a patentable “art” during those 160 years, they consistently rejected patents on methods of doing business. The rationales for those decisions sometimes varied. But there was an overarching theme, at least in dicta: Business methods are not patentable arts. See, e.g., *United States Credit Sys. Co. v. American Credit Indem. Co.*, 53 F. 818, 819 (CC NY 1893) (“method of insuring against loss by bad debts” could not be patented “as an art”); *Hotel Security Checking Co. v. Lorraine Co.*, 160 F. 467, 469 (CA2 1908) (“A system of transacting business disconnected from the means for carrying out the system is not, within the most liberal interpretation of the term,

³²A skeptic of patents, Jefferson described this as “drawing a line between things which are worth to the public the embarrassment of a patent, and those which are not.” 13 Writings of Thomas Jefferson 335 (Memorial ed. 1904).

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an art”); *Guthrie v. Curlett*, 10 F. 2d 725, 726 (CA2 1926) (method of abbreviating rail tariff schedules, “if it be novel, is not the kind of art protected by the patent acts”); *In re Patton*, 127 F. 2d 324, 327–328 (CCPA 1942) (holding that novel “interstate and national fire-fighting system” was not patentable because, *inter alia*, “a system of transacting business, apart from the means for carrying out such system is not” an art within the meaning of the patent law, “nor is an abstract idea or theory, regardless of its importance or . . . ingenuity”); *Loew’s Drive-In Theatres, Inc. v. Park-In Theatres, Inc.*, 174 F. 2d 547, 552 (CA1 1949) (“[A] system for the transaction of business, such, for example, as the cafeteria system for transacting the restaurant business . . . however novel, useful, or commercially successful is not patentable apart from the means for making the system practically useful, or carrying it out”); *Joseph E. Seagram & Sons, Inc. v. Marzall*, 180 F. 2d 26, 28 (CADC 1950) (method of focus-group testing for beverages is not patentable subject matter); see also *In re Howard*, 394 F. 2d 869, 872 (CCPA 1968) (Kirkpatrick, J., concurring) (explaining that a “method of doing business” cannot be patented). Between 1790 and 1952, this Court never addressed the patentability of business methods. But we consistently focused the inquiry on whether an “art” was connected to a machine or physical transformation,³³ an inquiry that would have excluded methods of doing business.

By the early 20th century, it was widely understood that a series of steps for conducting business could not be patented. A leading treatise, for example, listed “‘systems’ of business” as an “unpatentable subjec[t].” 1 A. Deller,

³³See, e.g., *Expanded Metal Co. v. Bradford*, 214 U. S. 366, 383, 385–386 (1909); *The Telephone Cases*, 126 U. S., at 533–537; *Cochrane*, 94 U. S., at 787–788; *Burden*, 15 How., at 267–268.

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Walker on Patents §18, p. 62 (1937).³⁴ Citing many of the cases listed above, the treatise concluded that a “method of transacting business” is not an “art.” *Id.*, §22, at 69; see also L. Amdur, Patent Law and Practice §39, p. 53 (1935) (listing “Methods of doing business” as an “Unpatentable [A]r[t]”); Berman 718 (“[C]ases have been fairly unanimous in denying patentability to such methods”); Tew, Method of Doing Business, 16 J. Pat. Off. Soc. 607 (1934) (“It is probably settled by long practice and many precedents that ‘methods of doing business,’ as these words are generally understood, are unpatentable”). Indeed, “[u]ntil recently” it was still “considered well established that [business] methods were non-statutory.” 1 R. Moy, Walker on Patents §5:28, p. 5–104 (4th ed. 2009).³⁵

Modern American Patent Law

By the mid-1900’s, many courts were construing the term “art” by using words such as “method, process, system, or like terms.” Berman 713; see *Expanded Metal Co. v. Bradford*, 214 U. S. 366, 382 (1909) (“The word ‘process’ has been brought into the decisions because it is supposedly an equivalent form of expression or included in the

³⁴See also 1 A. Deller, Walker on Patents §26, p. 152 (2d ed. 1964) (A “‘system’ or method of transacting business is not [a process], nor does it come within any other designation of patentable subject matter”).

³⁵Although a few patents issued before 1952 that related to methods of doing business, see United States Patent and Trademark Office, Automated Financial or Management Data Processing Methods, online at <http://www.uspto.gov/web/menu/busmethp/index.html> (all Internet materials as visited June 26, 2010, and available in Clerk of Court’s case file), these patents were rare, often issued through self-registration rather than any formalized patent examination, generally were not upheld by courts, and arguably are distinguishable from pure patents on business methods insofar as they often involved the manufacture of new objects. See *In re Bilski*, 545 F. 3d 943, 974, and n. 18 (CA Fed. 2008) (case below) (Dyk, J., concurring); Pollack 74–75; Walterscheid, To Promote the Progress 243.

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statutory designation of a new and useful art”).³⁶ Thus in 1952, when Congress updated the patent laws as part of its ongoing project to revise the United States Code, it changed the operative language in §101, replacing the term “art” with “process” and adding a definition of “process” as a “process, art or method,” §100(b).

That change was made for clarity and did not alter the scope of a patentable “process.” See *Diehr*, 450 U. S., at 184. The new terminology was added only in recognition of the fact that courts had been interpreting the category “art” by using the terms “process or method”; Congress thus wanted to avoid “the necessity of explanation that the word ‘art’ as used in this place means ‘process or method.’” S. Rep. No. 1979, 82d Cong., 2d Sess., 5 (1952) (hereinafter S. Rep. 1979); accord, H. R. Rep. No. 1923, 82d Cong., 2d Sess., 6 (1952) (hereinafter H. R. Rep. 1923); see also *id.*, at 17 (explaining that “the word ‘art’” in §101 “has been interpreted by the courts as being practically synonymous with process or method,” and that the switch to the word “[p]rocess” was intended only for clarity).³⁷

It appears that when Congress changed the language in §101 to incorporate the prevailing judicial terminology, it merely codified the prevailing judicial interpretation of that category of subject matter. See *Diehr*, 450 U. S., at 184; see also *Barber v. Gonzales*, 347 U. S. 637, 641 (1954) (“While it is true that statutory language should be interpreted whenever possible according to common usage, some terms acquire a special technical meaning by a process of judicial construction”). Both the Senate and House Committee Reports explained that the word “proc-

³⁶For examples of such usage, see *The Telephone Cases*, 126 U. S., at 533, and *Burden*, 15 How., at 267.

³⁷See also 98 Cong. Rec. A415 (1952) (remarks of Rep. Bryson) (describing, after the fact, the 1952 Patent Act, and explaining that “[t]he word ‘art’ was changed to ‘process’ in order to clarify its meaning. No change in substance was intended”).

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ess” was used in §101 “to clarify the present law as to the patentability of certain types of processes or methods as to which some insubstantial doubts have been expressed.” S. Rep. 1979, at 5; accord, H. Rep. 1923, at 6. And both noted that those terms were used to convey the prevailing meaning of the term “art,” “as interpreted” by courts, S. Rep. 1979, at 17; accord, H. Rep. 1923, at 17. Indeed, one of the main drafters of the Act explained that the definition of the term “process” in §100(b) reflects “how the courts have construed the term ‘art.’” Tr. of address by Judge Giles S. Rich to the New York Patent Law Association 7–8 (Nov. 6, 1952).

As discussed above, by this time, courts had consistently construed the term “art” to exclude methods of doing business. The 1952 Act likely captured that same meaning.³⁸ Cf. *Graham*, 383 U. S., at 16–17 (reasoning that because a provision of the 1952 Act “paraphrases language which has often been used in decisions of the courts” and was “added to the statute for uniformity and definiteness,” that provision should be treated as “a codification of judicial precedents”).³⁹ Indeed, Judge Rich, the main drafter

³⁸The 1952 Act also retained the language “invents or discovers,” which by that time had taken on a connotation that would tend to exclude business methods. See B. Evans & C. Evans, *A Dictionary of Contemporary Usage* 137 (1957) (explaining that “discover; invent” means “to make or create something new, especially, in modern usage, something ingeniously devised to perform mechanical operations”).

³⁹As explained in Part II, *supra*, the Court engages in a Jekyll-and-Hyde form of interpretation with respect to the word “process” in §101. It rejects the interpretation I proffer because the words “process” and “method” do not, on their face, distinguish between different series of acts. *Ante*, at 10. But it also rejects many sorts of processes without a textual basis for doing so. See *ante*, at 4–5, 7, 12–15. And while the Courts rests a great deal of weight on *Parker v. Flook*, 437 U. S. 584 (1978), for its analysis of abstract ideas, the Court minimizes *Flook*’s rejection of “a purely literal reading of §101,” as well as *Flook*’s reliance on the historical backdrop of §101 and our understanding of what “the statute was enacted to protect,” *id.*, at 588–590, 593; see also *Diamond*

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of the 1952 Act, later explained that “the invention of a more effective organization of the materials in, and the techniques of teaching a course in physics, chemistry, or Russian is not a patentable invention because it is outside of the enumerated categories of ‘process, machine, manufacture, or composition of matter, or any new and useful improvement thereof.’” Principles of Patentability, 28 Geo. Wash. L. Rev. 393, 394 (1960). “Also outside that group,” he added, was a process for doing business: “the greatest inventio[n] of our times, the diaper service.” *Ibid.*⁴⁰

“Anything Under the Sun”

Despite strong evidence that Congress has consistently authorized patents for a limited class of subject matter and that the 1952 Act did not alter the nature of the then-existing limits, petitioners and their *amici* emphasize a single phrase in the Act’s legislative history, which suggests that the statutory subject matter “include[s] anything under the sun that is made by man.” Brief for Petitioners 19 (quoting *Chakrabarty*, 447 U. S., at 309, in turn quoting S. Rep. 1979, at 5). Similarly, the Court relies on language from our opinion in *Chakrabarty* that was based in part on this piece of legislative history. See *ante*, at 4, 6.

This reliance is misplaced. We have never understood

v. *Diehr*, 450 U. S. 175, 192 (1981) (explaining that a “claim satisfies the requirements of §101” when it “is performing a function which the patent laws were designed to protect”).

⁴⁰Forty years later, Judge Rich authored the *State Street* opinion that some have understood to make business methods patentable. But *State Street* dealt with whether a piece of software could be patented and addressed only claims directed at machines, not processes. His opinion may therefore be better understood merely as holding that an otherwise patentable process is not unpatentable simply because it is directed toward the conduct of doing business—an issue the Court has no occasion to address today. See *State Street*, 149 F. 3d, at 1375.

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that piece of legislative history to mean that any series of steps is a patentable process. Indeed, if that were so, then our many opinions analyzing what is a patentable process were simply wastes of pages in the U. S. Reports. And to accept that errant piece of legislative history as widening the scope of the patent law would contradict other evidence in the congressional record, as well as our presumption that the 1952 Act merely codified the meaning of “process” and did not expand it, see *Diehr*, 450 U. S., at 184.

Taken in context, it is apparent that the quoted language has a far less expansive meaning. The full sentence in the Committee Reports reads: “A person may have ‘invented’ a machine or a manufacture, which may include anything under the sun that is made by man, but it is not necessarily patentable under section 101 unless the conditions of [this] title are fulfilled.” S. Rep. 1979, at 5; H. R. Rep. 1923, at 6. Viewed as a whole, it seems clear that this language does not purport to explain that “anything under the sun” is patentable. Indeed, the language may be understood to state the exact opposite: that “[a] person may have ‘invented’ . . . anything under the sun,” but that thing “is not necessarily patentable under section 101.” Thus, even in the *Chakrabarty* opinion, which relied on this quote, we cautioned that the 1952 Reports did not “suggest that §101 has no limits or that it embraces every discovery.” 447 U. S., at 309.

Moreover, even if the language in the Committee Reports was meant to flesh out the meaning of any portion of §101, it did not purport to define the term “process.” The language refers only to “manufacture[s]” and “machine[s],” tangible objects “made by man.” It does not reference the “process” category of subject matter (nor could a process be comfortably described as something “*made* by man”). The language may also be understood merely as defining the term “invents” in §101. As Judge Dyk explained in his

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opinion below, the phrase “made by man” “is reminiscent” of a 1790’s description of the limits of English patent law, that an “invention must be ‘made by man’” and cannot be “‘a philosophical principle only, neither organized or capable of being organized’ from a patentable manufacture.” 545 F. 3d, at 976 (quoting *Hornblower v. Boulton*, 8 T. R. 95, 98 (K. B. 1799)).

The 1952 Act, in short, cannot be understood as expanding the scope of patentable subject matter by suggesting that any series of steps may be patented as a “process” under §101. If anything, the Act appears to have codified the conclusion that subject matter which was understood not to be patentable in 1952 was to remain unpatentable.

Our recent case law reinforces my view that a series of steps for conducting business is not a “process” under §101. Since Congress passed the 1952 Act, we have never ruled on whether that Act authorizes patents on business methods. But we have cast significant doubt on that proposition by giving substantial weight to the machine-or-transformation test, as general methods of doing business do not pass that test. And more recently, Members of this Court have noted that patents on business methods are of “suspect validity.” *eBay Inc. v. MercExchange, L. L. C.*, 547 U. S. 388, 397 (2006) (KENNEDY, J., concurring).

* * *

Since at least the days of Assyrian merchants, people have devised better and better ways to conduct business. Yet it appears that neither the Patent Clause, nor early patent law, nor the current §101 contemplated or was publicly understood to mean that such innovations are patentable. Although it may be difficult to define with precision what is a patentable “process” under §101, the historical clues converge on one conclusion: A business method is not a “process.” And to the extent that there is ambiguity, we should be mindful of our judicial role. “[W]e

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must proceed cautiously when we are asked to extend patent rights” into an area that the Patent Act likely was not “enacted to protect,” *Flook*, 437 U. S., at 596, 593, lest we create a legal regime that Congress never would have endorsed, and that can be repaired only by disturbing settled property rights.

V

Despite the strong historical evidence that a method of doing business does not constitute a “process” under §101, petitioners nonetheless argue—and the Court suggests in dicta, *ante*, at 10–11—that a subsequent law, the First Inventor Defense Act of 1999, “must be read together” with §101 to make business methods patentable. Brief for Petitioners 29. This argument utilizes a flawed method of statutory interpretation and ignores the motivation for the 1999 Act.

In 1999, following a Federal Circuit decision that intimated business methods could be patented, see *State Street*, 149 F.3d 1368, Congress moved quickly to limit the potential fallout. Congress passed the 1999 Act, codified at 35 U. S. C. §273, which provides a limited defense to claims of patent infringement, see §273(b), regarding certain “method[s] of doing or conducting business,” §273(a)(3).

It is apparent, both from the content and history of the Act, that Congress did not in any way ratify *State Street* (or, as petitioners contend, the broadest possible reading of *State Street*). The Act merely limited one potential effect of that decision: that businesses might suddenly find themselves liable for innocently using methods they assumed could not be patented. The Act did not purport to amend the limitations in §101 on eligible subject matter. Indeed, Congress placed the statute in Part III of Title 35, which addresses “Patents and Protection of Patent Rights,” rather than in Part II, which contains §101 and

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addresses “Patentability of Inventions and Grant of Patents.” Particularly because petitioners’ reading of the 1999 Act would expand §101 to cover a category of processes that have not “historically been eligible” for patents, *Diehr*, 450 U. S., at 184, we should be loath to conclude that Congress effectively amended §101 without saying so clearly. We generally presume that Congress “does not, one might say, hide elephants in mouseholes.” *Whitman v. American Trucking Assns., Inc.*, 531 U. S. 457, 468 (2001).

The Act therefore is, at best, merely evidence of 1999 legislative views on the meaning of the earlier, 1952 Act. “[T]he views of a subsequent Congress,” however, “form a hazardous basis for inferring the intent of an earlier one.” *United States v. Price*, 361 U. S. 304, 313 (1960). When a later statute is offered as “an expression of how the . . . Congress interpreted a statute passed by another Congress . . . a half century before,” “such interpretation has very little, if any, significance.” *Rainwater v. United States*, 356 U. S. 590, 593 (1958).

Furthermore, even assuming that Congress’ views at the turn of the 21st century could potentially serve as a valid basis for interpreting a statute passed in the mid-20th century, the First Inventor Defense Act does not aid petitioners because it does not show that the later Congress itself understood §101 to cover business methods. If anything, it shows that a few judges on the Federal Circuit understood §101 in that manner and that Congress understood what those judges had done. The Act appears to reflect surprise and perhaps even dismay that business methods might be patented. Thus, in the months following *State Street*, congressional authorities lamented that “business methods and processes . . . until recently were thought not to be patentable,” H. R. Rep. No. 106–464, p. 121 (1999); accord, H. R. Rep. No. 106–287, pt. 1, p. 31

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(1999).⁴¹ The fact that Congress decided it was appropriate to create a new *defense* to claims that business method patents were being infringed merely demonstrates recognition that such claims could create a significant new problem for the business community.

The Court nonetheless states that the 1999 Act “acknowledges that there may be business method patents,” thereby “clarify[ing]” its “understanding” of §101. *Ante*, at 11. More specifically, the Court worries that if we were to interpret the 1952 Act to exclude business methods, our interpretation “would render §273 meaningless.” *Ibid*. I agree that “[a] statute should be construed so that effect is given to all its provisions.” *Corley v. United States*, 556 U. S. ___, ___ (2009) (slip op., at 9) (internal quotation marks omitted). But it is a different matter altogether when the Court construes one statute, the 1952 Act, to give effect to a different statute, the 1999 Act. The canon on which the Court relies is predicated upon the idea that “[a] statute is passed as a whole.” 2A N. Singer & J. Singer, *Statutes and Statutory Construction* §46:5, p. 189 (7th ed. 2007). But the two statutes in question were not passed as a whole.

Put another way, we ordinarily assume, quite sensibly, that Congress would not in one statute include two provisions that are at odds with each other. But as this case shows, that sensible reasoning can break down when

⁴¹See also 145 Cong. Rec. 30985 (1999) (remarks of Sen. Schumer) (explaining that “[i]n *State Street*, the Court did away with the so-called ‘business methods’ exception to statutory patentable subject matter,” and “[t]he first inventor defense will provide . . . important, needed protections in the face of the uncertainty presented by . . . the *State Street* case”); *id.*, at 31007 (remarks of Sen. DeWine) (“Virtually no one in the industry believed that these methods or processes were patentable”); *id.*, at 19281 (remarks of Rep. Manzullo) (“Before the *State Street Bank and Trust* case . . . it was universally thought that methods of doing or conducting business were not patentable items”).

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applied to different statutes.⁴² The 1999 Act was passed to limit the impact of the Federal Circuit's then-recent statements on the 1952 Act. Although repudiating that judicial dictum (as we should) might effectively render the 1999 Act a nullity going forward, such a holding would not mean that it was a nullity when Congress enacted it. Section 273 may have been a technically unnecessary response to confusion about patentable subject matter, but it appeared necessary in 1999 in light of what was being discussed in legal circles at the time.⁴³ Consider the logical implications of the Court's approach to this question: If, tomorrow, Congress were to conclude that patents on business methods are so *important* that the special infringement defense in §273 ought to be abolished, and thus repealed that provision, this could paradoxically strengthen the case *against* such patents because there would no longer be a §273 that "acknowledges . . . business method patents," *ante*, at 11. That is not a sound method of statutory interpretation.

In light of its history and purpose, I think it obvious

⁴²The Court opines that "[t]his principle, *of course*, applies to interpreting any two provisions in the U. S. Code, even when Congress enacted the provisions at different times." *Ante*, at 11 (emphasis added). The only support the Court offers for this proposition is a 1937 opinion for three Justices, in *Hague v. Committee for Industrial Organization*, 307 U. S. 496, 528–530 (1939) (opinion of Stone, J.). But that opinion is inapposite. Although Justice Stone stated that two provisions "must be read together," *id.*, at 530, he did so to explain that an ambiguity in a later-in-time statute must be understood in light of the earlier-in-time framework against which the ambiguous statute was passed, *id.*, at 528–530, particularly because the later statute explicitly stated that it "shall not be construed to apply" to the provision created by an earlier Act, *id.*, at 528.

⁴³I am not trying to "overcome" an "established rule of statutory interpretation" with "judicial speculation as to the subjective intent of various legislators," *ante*, at 11, but, rather, I am explaining why the Court has illogically expanded the canon upon which it relies beyond that canon's logical underpinnings.

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that the 1999 Congress would never have enacted §273 if it had foreseen that this Court would rely on the provision as a basis for concluding that business methods are patentable. Section 273 is a red herring; we should be focusing our attention on §101 itself.

VI

The constitutionally mandated purpose and function of the patent laws bolster the conclusion that methods of doing business are not “processes” under §101.

The Constitution allows Congress to issue patents “[t]o promote the Progress of . . . useful Arts,” Art. I, §8, cl. 8. This clause “is both a grant of power and a limitation.” *Graham*, 383 U. S., at 5. It “reflects a balance between the need to encourage innovation and the avoidance of monopolies which stifle competition without any concomitant advance in the ‘Progress of Science and useful Arts.’” *Bonito Boats*, 489 U. S., at 146. “This is the standard expressed in the Constitution and it may not be ignored. And it is in this light that patent validity ‘requires reference to [the] standard written into the Constitution.’” *Graham*, 383 U. S., at 6 (quoting *Great Atlantic & Pacific Tea Co. v. Supermarket Equipment Corp.*, 340 U. S. 147, 154 (1950) (Douglas, J., concurring) (emphasis deleted)); see also *Grant v. Raymond*, 6 Pet. 218, 241–242 (1832) (explaining that patent “laws which are passed to give effect to this [constitutional] purpose ought, we think, to be construed in the spirit in which they have been made”).⁴⁴

⁴⁴See also *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U. S. 617, 626 (2008) (“[T]he primary purpose of our patent laws is not the creation of private fortunes for the owners of patents but is “to promote the progress of science and useful arts”” (quoting *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U. S. 502, 511 (1917))); *Pfaff v. Wells Electronics, Inc.*, 525 U. S. 55, 63 (1998) (“[T]he patent system represents a carefully crafted bargain that encourages both the creation and the public disclosure of new and useful advances in

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Thus, although it is for Congress to “implement the stated purpose of the Framers by selecting the policy which in its judgment best effectuates the constitutional aim,” *Graham*, 383 U. S., at 6, we interpret ambiguous patent laws as a set of rules that “wee[d] out those inventions which would not be disclosed or devised but for the inducement of a patent,” *id.*, at 11, and that “embod[y]” the “careful balance between the need to promote innovation and the recognition that imitation and refinement through imitation are both necessary to invention itself and the very lifeblood of a competitive economy,” *Bonito Boats*, 489 U. S., at 146. And absent a discernible signal from Congress, we proceed cautiously when dealing with patents that press on the limits of the “standard written into the constitution,” *Graham*, 383 U. S., at 6, for at the “fringes of congressional power,” “more is required of legislatures than a vague delegation to be filled in later,” *Barenblatt v. United States*, 360 U. S. 109, 139–140 (1959) (Black, J., dissenting); see also *Greene v. McElroy*, 360 U. S. 474, 507 (1959) (“[D]ecisions of great constitutional import and effect” “requir[e] careful and purposeful consideration by those responsible for enacting and implementing our laws”). We should not casually risk exceeding the constitutional limitation on Congress’ behalf.

The Court has kept this “constitutional standard” in mind when deciding what is patentable subject matter under §101. For example, we have held that no one can patent “laws of nature, natural phenomena, and abstract ideas.” *Diehr*, 450 U. S., at 185. These “are the basic tools of scientific and technological work,” *Benson*, 409 U. S., at 67, and therefore, if patented, would stifle the very progress that Congress is authorized to promote, see, *e.g.*, *O’Reilly*, 15 How., at 113 (explaining that Morse’s patent on electromagnetism for writing would preempt a wide

technology”).

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swath of technological developments).

Without any legislative guidance to the contrary, there is a real concern that patents on business methods would press on the limits of the “standard expressed in the Constitution,” *Graham*, 383 U. S., at 6, more likely stifling progress than “promot[ing]” it. U. S. Const., Art. I, §8, cl. 8. I recognize that not all methods of doing business are the same, and that therefore the constitutional “balance,” *Bonito Boats*, 489 U. S., at 146, may vary within this category. Nevertheless, I think that this balance generally supports the historic understanding of the term “process” as excluding business methods. And a categorical analysis fits with the purpose, as Thomas Jefferson explained, of ensuring that “every one might know when his actions were safe and lawful,” *Graham*, 383 U. S., at 10; see also *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U. S. 722, 730–731 (2002) (“The monopoly is a property right; and like any property right, its boundaries should be clear. This clarity is essential to promote progress”); *Diehr*, 450 U. S., at 219 (STEVENS, J., dissenting) (it is necessary to have “rules that enable a conscientious patent lawyer to determine with a fair degree of accuracy” what is patentable).

On one side of the balance is whether a patent monopoly is necessary to “motivate the innovation,” *Pfaff v. Wells Electronics, Inc.*, 525 U. S. 55, 63 (1998). Although there is certainly disagreement about the need for patents, scholars generally agree that when innovation is expensive, risky, and easily copied, inventors are less likely to undertake the guaranteed costs of innovation in order to obtain the mere possibility of an invention that others can copy.⁴⁵ Both common sense and recent economic scholarship suggest that these dynamics of cost, risk, and reward

⁴⁵See generally W. Landes & R. Posner, *The Economic Structure of Intellectual Property Law* 13–15 (2003).

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vary by the type of thing being patented.⁴⁶ And the functional case that patents promote progress generally is stronger for subject matter that has “historically been eligible to receive the protection of our patent laws,” *Diehr*, 450 U. S., at 184, than for methods of doing business.

Many have expressed serious doubts about whether patents are necessary to encourage business innovation.⁴⁷ Despite the fact that we have long assumed business methods could not be patented, it has been remarked that “the chief business of the American people, is business.”⁴⁸ Federal Express developed an overnight delivery service and a variety of specific methods (including shipping through a central hub and online package tracking) without a patent. Although counterfactuals are a dubious form of analysis, I find it hard to believe that many of our entrepreneurs forwent business innovation because they could not claim a patent on their new methods.

“[C]ompanies have ample incentives to develop business methods even without patent protection, because the competitive marketplace rewards companies that use more efficient business methods.” Burk & Lemley 1618.⁴⁹ Innovators often capture advantages from new business methods notwithstanding the risk of others copying their innovation. Some business methods occur in secret and

⁴⁶See, e.g., Burk & Lemley, Policy Levers in Patent Law, 89 Va. L. Rev. 1575, 1577–1589 (2003) (hereinafter Burk & Lemley).

⁴⁷See, e.g., Burk & Lemley 1618; Carrier, Unraveling the Patent-Antitrust Paradox, 150 U. Pa. L. Rev. 761, 826 (2002) (hereinafter Carrier); Dreyfuss, Are Business Methods Patents Bad for Business? 16 Santa Clara Computer & High Tech. L. J. 263, 274–277 (2000) (hereinafter Dreyfuss); Posner, The Law and Economics of Intellectual Property, 131 Daedalus 5 (Spring 2002).

⁴⁸C. Coolidge, The Press Under a Free Government, in Foundations of the Republic: Speeches and Addresses 187 (1926).

⁴⁹See also Pollack 75–76 (“Since business methods are ‘useful’ when they directly earn revenue, they are inherently unlikely to be under-produced”).

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therefore can be protected with trade secrecy.⁵⁰ And for those methods that occur in public, firms that innovate often capture long-term benefits from doing so, thanks to various first mover advantages, including lockins, branding, and networking effects.⁵¹ Business innovation, moreover, generally does not entail the same kinds of risk as does more traditional, technological innovation. It generally does not require the same “enormous costs in terms of time, research, and development,” *Bicron*, 416 U. S., at 480, and thus does not require the same kind of “compensation to [innovators] for their labor, toil, and expense,” *Seymour v. Osborne*, 11 Wall. 516, 533–544 (1871).⁵²

Nor, in many cases, would patents on business methods promote progress by encouraging “public disclosure.” *Pfaff*, 525 U. S., at 63; see also *Brenner v. Manson*, 383 U. S. 519, 533 (1966) (“[O]ne of the purposes of the patent system is to encourage dissemination of information concerning discoveries and inventions”). Many business methods are practiced in public, and therefore a patent does not necessarily encourage the dissemination of anything not already known. And for the methods practiced in private, the benefits of disclosure may be small: Many such methods are distributive, not productive—that is, they do not generate any efficiency but only provide a means for competitors to one-up each other in a battle for pieces of the pie. And as the Court has explained, “it is

⁵⁰See R. Levin et al., *Appropriating the Returns from Industrial Research and Development*, in 3 *Brookings Papers on Econ. Activity* 794–795 (1987).

⁵¹See Burk & Lemley 1618; Dreyfuss 275; see generally Carrier 821–823. Concededly, there may some methods of doing business that do not confer sufficient first-mover advantages. See Abramowicz & Duffy, *Intellectual Property for Market Experimentation*, 83 *N. Y. U. L. Rev.* 337, 340–342 (2008).

⁵²See Burk & Lemley 1618; Carrier 826; Olson, *Taking the Utilitarian Basis for Patent Law Seriously: The Case For Restricting Patentable Subject Matter*, 82 *Temp. L. Rev.* 181, 231 (2009).

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hard to see how the public would be benefited by disclosure” of certain business tools, since the nondisclosure of these tools “encourages businesses to initiate new and individualized plans of operation,” which “in turn, leads to a greater variety of business methods.” *Bicron*, 416 U. S., at 483.

In any event, even if patents on business methods were useful for encouraging innovation and disclosure, it would still be questionable whether they would, on balance, facilitate or impede the progress of American business. For even when patents encourage innovation and disclosure, “*too much* patent protection can impede rather than ‘promote the Progress of . . . useful Arts.’” *Laboratory Corp. of America Holdings v. Metabolite Laboratories, Inc.*, 548 U. S. 124, 126–127 (2006) (BREYER, J., dissenting from dismissal of certiorari). Patents “can discourage research by impeding the free exchange of information,” for example, by forcing people to “avoid the use of potentially patented ideas, by leading them to conduct costly and time-consuming searches of existing or pending patents, by requiring complex licensing arrangements, and by raising the costs of using the patented” methods. *Id.*, at 127. Although “[e]very patent is the grant of a privilege of exacting tolls from the public,” *Great Atlantic*, 340 U. S., at 154 (Douglas, J., concurring), the tolls of patents on business methods may be especially high.

The primary concern is that patents on business methods may prohibit a wide swath of legitimate competition and innovation. As one scholar explains, “it is useful to conceptualize knowledge as a pyramid: the big ideas are on top; specific applications are at the bottom.” Dreyfuss 275. The higher up a patent is on the pyramid, the greater the social cost and the greater the hindrance to further innovation.⁵³ Thus, this Court stated in *Benson*

⁵³See Dreyfuss 276; Merges & Nelson, On the Complex Economics of

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that “[p]henomena of nature . . . , mental processes, and abstract intellectual concepts are not patentable, as they are the basic tools of scientific and technological work,” 409 U. S., at 67; see also, *Joseph E. Seagram & Sons, Inc.*, 180 F. 2d, at 28 (“To give appellant a monopoly, through the issuance of a patent, upon so great an area . . . would in our view impose without warrant of law a serious restraint upon the advance of science and industry”). Business methods are similarly often closer to “big ideas,” as they are the basic tools of *commercial* work. They are also, in many cases, the basic tools of further business innovation: Innovation in business methods is often a sequential and complementary process in which imitation may be a “*spur* to innovation” and patents may “become an *impediment*.” Bessen & Maskin, *Sequential Innovation, Patents, and Imitation*, 40 RAND J. Econ. 611, 613 (2009).⁵⁴ “Think how the airline industry might now be structured if the first company to offer frequent flyer miles had enjoyed the sole right to award them.” Dreyfuss 264. “[I]mitation and refinement through imitation are both necessary to invention itself and the very lifeblood of a competitive economy.” *Bonito Boats*, 489 U. S., at 146.

If business methods could be patented, then many business decisions, no matter how small, could be *potential* patent violations. Businesses would either live in constant fear of litigation or would need to undertake the costs of searching through patents that describe methods of doing business, attempting to decide whether their innovation is one that remains in the public domain. See Long, *Information Costs in Patent and Copyright*, 90 Va. L. Rev. 465,

Patent Scope, 90 Colum. L. Rev. 839, 873–878 (1990).

⁵⁴See also Raskind, *The State Street Bank Decision, The Bad Business of Unlimited Patent Protection for Methods of Doing Business*, 10 Fordham Intell. Prop. Media & Ent. L. J. 61, 102 (1999) (“Interactive emulation more than innovation is the driving force of business method changes”).

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487–488 (2004) (hereinafter Long). But as we have long explained, patents should not “embaras[s] the honest pursuit of business with fears and apprehensions of concealed liens and unknown liabilities to lawsuits and vexatious accountings for profits made in good faith.” *Atlantic Works v. Brady*, 107 U. S. 192, 200 (1883).⁵⁵

These effects are magnified by the “potential vagueness” of business method patents, *eBay Inc.*, 547 U. S., at 397 (KENNEDY, J., concurring). When it comes to patents, “clarity is essential to promote progress.” *Festo Corp.*, 535 U. S., at 730–731. Yet patents on methods of conducting business generally are composed largely or entirely of intangible steps. Compared to “the kinds of goods . . . around which patent rules historically developed,” it thus tends to be more costly and time consuming to search through, and to negotiate licenses for, patents on business methods. See Long 539, 470.⁵⁶

The breadth of business methods, their omnipresence in our society, and their potential vagueness also invite a particularly pernicious use of patents that we have long criticized. As early as the 19th century, we explained that the patent laws are not intended to “creat[e] a class of

⁵⁵There is substantial academic debate, moreover, about whether the normal process of screening patents for novelty and obviousness can function effectively for business methods. The argument goes that because business methods are both vague and not confined to any one industry, there is not a well-confined body of prior art to consult, and therefore many “bad” patents are likely to issue, a problem that would need to be sorted out in later litigation. See, e.g., Dreyfuss 268–270; Eisenberg, *Analyze This: A Law and Economics Agenda for the Patent System*, 53 Vand. L. Rev. 2081, 2090 (2000); Merges 589–590.

⁵⁶See also J. Bessen & M. Meurer, *Patent Failure: How Judges, Bureaucrats, and Lawyers Put Innovators at Risk* 46–72 (2008) (hereinafter Bessen & Meurer); P. Menell & S. Scotchmer, *Intellectual Property Law*, in 2 *Handbook of Law and Economics* 1500–1501, 1506 (M. Polinsky & S. Shavell eds. 2007). Concededly, alterations in the remedy structure, such as the First Inventor Defense Act of 1999, §4301 *et seq.*, 113 Stat. 1536, codified at 35 U. S. C. §273, mitigate these costs.

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speculative schemers who make it their business to watch the advancing wave of improvement, and gather its foam in the form of patented monopolies, which enable them to lay a heavy tax upon the industry of the country, without contributing anything to the real advancement of the arts.” *Atlantic Works*, 107 U. S., at 200. Yet business method patents may have begun to do exactly that. See *eBay Inc.*, 547 U. S., at 396–397 (opinion of KENNEDY, J.).

These many costs of business method patents not only may stifle innovation, but they are also likely to “stifle competition,” *Bonito Boats*, 489 U. S., at 146. Even if a business method patent is ultimately held invalid, patent holders may be able to use it to threaten litigation and to bully competitors, especially those that cannot bear the costs of a drawn out, fact-intensive patent litigation.⁵⁷ That can take a particular toll on small and upstart businesses.⁵⁸ Of course, patents always serve as a barrier to competition for the type of subject matter that is patented. But patents on business methods are patents on business itself. Therefore, unlike virtually every other category of patents, they are by their very nature likely to depress the dynamism of the marketplace.⁵⁹

⁵⁷See generally Farrell & Shapiro, How Strong Are Weak Patents? 98 *Amer. Econ. Rev.* 1347 (2008); Meurer, Controlling Opportunistic and Anti-Competitive Intellectual Property Litigation, 44 *Boston College L. Rev.* 509 (2003); Moore, Populism and Patents, 82 *N. Y. U. L. Rev.* 69, 90–91 (2007).

⁵⁸See Bessen & Meurer 176; Lessig, The Death of Cyberspace, 57 *Wash. & Lee L. Rev.* 337, 346–347 (2000).

⁵⁹Congress and the courts have worked long and hard to create and administer antitrust laws that ensure businesses cannot prevent each other from competing vigorously. If methods of conducting business were themselves patentable, then virtually any novel, nonobvious business method could be granted a federally protected monopoly. The tension this might create with our antitrust regime provides yet another reason for skepticism that Congress would have wanted the patent laws to extend to business methods.

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* * *

The constitutional standard for patentability is difficult to apply with any precision, and Congress has significant discretion to “implement the stated purpose of the Framers by selecting the policy which in its judgment best effectuates the constitutional aim,” *Graham*, 383 U. S., at 6. But Congress has not, either explicitly or implicitly, determined that patents on methods of doing business would effectuate this aim. And as I understand their practical consequences, it is hard to see how they would.

VII

The Constitution grants to Congress an important power to promote innovation. In its exercise of that power, Congress has established an intricate system of intellectual property. The scope of patentable subject matter under that system is broad. But it is not endless. In the absence of any clear guidance from Congress, we have only limited textual, historical, and functional clues on which to rely. Those clues all point toward the same conclusion: that petitioners’ claim is not a “process” within the meaning of §101 because methods of doing business are not, in themselves, covered by the statute. In my view, acknowledging as much would be a far more sensible and restrained way to resolve this case. Accordingly, while I concur in the judgment, I strongly disagree with the Court’s disposition of this case.

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BREYER, J., concurring in judgment

SUPREME COURT OF THE UNITED STATES

No. 08–964

BERNARD L. BILSKI AND RAND A. WARSAW,
PETITIONERS *v.* DAVID J. KAPPOS, UNDER
SECRETARY OF COMMERCE FOR INTEL-
LECTUAL PROPERTY AND DIRECTOR,
PATENT AND TRADEMARK OFFICE

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF
APPEALS FOR THE FEDERAL CIRCUIT

[June 28, 2010]

JUSTICE BREYER, with whom JUSTICE SCALIA joins as to
Part II, concurring in the judgment.

I

I agree with JUSTICE STEVENS that a “general method of engaging in business transactions” is not a patentable “process” within the meaning of 35 U. S. C. §101. *Ante*, at 2 (STEVENS, J., concurring in judgment). This Court has never before held that so-called “business methods” are patentable, and, in my view, the text, history, and purposes of the Patent Act make clear that they are not. *Ante*, at 10–47. I would therefore decide this case on that ground, and I join JUSTICE STEVENS’ opinion in full.

I write separately, however, in order to highlight the substantial *agreement* among many Members of the Court on many of the fundamental issues of patent law raised by this case. In light of the need for clarity and settled law in this highly technical area, I think it appropriate to do so.

II

In addition to the Court’s unanimous agreement that the claims at issue here are unpatentable abstract ideas, it is my view that the following four points are consistent

BREYER, J., concurring in judgment

with both the opinion of the Court and JUSTICE STEVENS' opinion concurring in the judgment:

First, although the text of §101 is broad, it is not without limit. See *ante*, at 4–5 (opinion of the Court); *ante*, at 10 (STEVENS, J., concurring in judgment). “[T]he underlying policy of the patent system [is] that ‘the things which are worth to the public the embarrassment of an exclusive patent,’ . . . must outweigh the restrictive effect of the limited patent monopoly.” *Graham v. John Deere Co. of Kansas City*, 383 U. S. 1, 10–11 (1966) (quoting Letter from Thomas Jefferson to Isaac McPherson (Aug. 13, 1813), in 6 Writings of Thomas Jefferson 181 (H. Washington ed.)). The Court has thus been careful in interpreting the Patent Act to “determine not only what is protected, but also what is free for all to use.” *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U. S. 141, 151 (1989). 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.” *Gottschalk v. Benson*, 409 U. S. 63, 67, 72 (1972); see also, *e.g.*, *Diamond v. Diehr*, 450 U. S. 175, 185 (1981); *Diamond v. Chakrabarty*, 447 U. S. 303, 309 (1980).

Second, in a series of cases that extend back over a century, the Court has stated that “[t]ransformation and reduction of an article to a different state or thing is *the clue* to the patentability of a process claim that does not include particular machines.” *Diehr, supra*, at 184 (emphasis added; internal quotation marks omitted); see also, *e.g.*, *Benson, supra*, at 70; *Parker v. Flook*, 437 U. S. 584, 588, n. 9 (1978); *Cochrane v. Deener*, 94 U. S. 780, 788 (1877). Application of this test, the so-called “machine-or-transformation test,” has thus repeatedly helped the Court to determine what is “a patentable ‘process.’” *Flook, supra*,

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at 589.

Third, while the machine-or-transformation test has always been a “useful and important clue,” it has never been the “sole test” for determining patentability. *Ante*, at 8; see also *ante*, at 1 (STEVENS, J., concurring in judgment); *Benson, supra*, at 71 (rejecting the argument that “no process patent could ever qualify” for protection under §101 “if it did not meet the [machine-or-transformation] requirements”). Rather, the Court has emphasized that a process claim meets the requirements of §101 when, “considered as a whole,” it “is performing a function which the patent laws were designed to protect (*e.g.*, transforming or reducing an article to a different state or thing).” *Diehr, supra*, at 192. The machine-or-transformation test is thus an *important example* of how a court can determine patentability under §101, but the Federal Circuit erred in this case by treating it as the *exclusive test*.

Fourth, although the machine-or-transformation test is not the only test for patentability, this by no means indicates that anything which produces a “useful, concrete, and tangible result,” *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, 149 F. 3d 1368, 1373 (CA Fed. 1998), is patentable. “[T]his Court has never made such a statement and, if taken literally, the statement would cover instances where this Court has held the contrary.” *Laboratory Corp. of America Holdings v. Metabolute Laboratories, Inc.*, 548 U. S. 124, 136 (2006) (BREYER, J., dissenting from dismissal of certiorari as improvidently granted); see also, *e.g.*, *O’Reilly v. Morse*, 15 How. 62, 117 (1854); *Flook, supra*, at 590. Indeed, the introduction of the “useful, concrete, and tangible result” approach to patentability, associated with the Federal Circuit’s *State Street* decision, preceded the granting of patents that “ranged from the somewhat ridiculous to the truly absurd.” *In re Bilski*, 545 F. 3d 943, 1004 (CA Fed. 2008) (Mayer, J., dissenting) (citing patents on, *inter alia*, a

BREYER, J., concurring in judgment

“method of training janitors to dust and vacuum using video displays,” a “system for toilet reservations,” and a “method of using color-coded bracelets to designate dating status in order to limit ‘the embarrassment of rejection’”); see also Brief for Respondent 40–41, and n. 20 (listing dubious patents). To the extent that the Federal Circuit’s decision in this case rejected that approach, nothing in today’s decision should be taken as disapproving of that determination. See *ante*, at 16; *ante*, at 2, n. 1 (STEVENS, J., concurring in judgment).

In sum, it is my view that, in reemphasizing that the “machine-or-transformation” test is not necessarily the *sole* test of patentability, the Court intends neither to de-emphasize the test’s usefulness nor to suggest that many patentable processes lie beyond its reach.

III

With these observations, I concur in the Court’s judgment.

United States Court of Appeals for the Federal Circuit

2007-1400

ABBOTT LABORATORIES,

Plaintiff-Appellant,

and

ASTELLAS PHARMA, INC.,

Plaintiff-Appellant,

v.

SANDOZ, INC.,

Defendant-Appellee,

and

SANDOZ GMBH,

Defendant,

and

TEVA PHARMACEUTICALS USA, INC. and
TEVA PHARMACEUTICAL INDUSTRIES, LTD.,

Defendants-Appellees,

and

RANBAXY LABORATORIES, LTD. and RANBAXY, INC.,

Defendants,

and

PAR PHARMACEUTICAL COMPANIES, INC. and PAR PHARMACEUTICAL,

Defendants.

2007-1446

LUPIN LIMITED,

Plaintiff/Counterclaim Defendant-
Appellee,

and

LUPIN PHARMACEUTICALS, INC.,

Counterclaim Defendant-Appellee,

v.

ABBOTT LABORATORIES,

Defendant/Counterclaimant-Appellant,

and

ASTELLAS PHARMA, INC.,

Defendant/Counterclaimant-Appellant.

James F. Hurst, Winston & Strawn LLP, of Chicago, Illinois, argued for all plaintiffs-appellants in 2007-1400 and defendants/counterclaimants-appellants in 2007-1446. With him on the briefs for Abbott Laboratories were Todd J. Ehlman, Kathleen B. Barry, and Ivan M. Poullaos, and Steffen N. Johnson, of Washington, DC. Of counsel on the brief for Abbott Laboratories were William F. Cavanaugh, Jr., Jeffrey I.D. Lewis, and Stuart E. Pollack, Patterson Belknap Webb & Tyler LLP, of New York, New York. Of counsel was John C. Knapp. On the briefs for Astellas Pharma, Inc., were Richard D. Kelly, Stephen G. Baxter and Frank J. West, Oblon, Spivak, McClelland, Maier & Neustadt, P.C., of Alexandria, Virginia.

Meredith Martin Addy, Brinks, Hofer, Gilson & Lione, of Chicago, Illinois, argued for defendant-appellee Sandoz, Inc. With her on the brief were Thomas J. Filarski, Mark H. Remus, C. Noel Kaman, and Laura A. Lydigsen. Of counsel was Rashad L. Morgan.

Thomas J. Meloro, Jr., Wilkie Farr & Gallagher LLP, of New York, New York, argued for defendants-appellees Teva Pharmaceuticals USA, Inc., et al. With him on the brief was Neal K. Feivelson. Of counsel were Michael W. Johnson and Alexander H. Swirnof.

Deanne M. Mazzochi, Rakoczy Molino Mazzochi Siwik, LLP, of Chicago, Illinois, argued for plaintiff/counterclaim defendant-appellee Lupin Limited and counterclaim defendant-appellee, Lupin Pharmaceuticals, Inc. in 2007-1446. With her on the brief were William A. Rakoczy, Paul J. Molino, and Amy D. Brody.

Appealed from: United States District Court for the Northern District of Illinois (07-CV-1721)

Judge Wayne R. Andersen

Appealed from: United States District Court for the Eastern District of Virginia (3:06-CV-400)

Judge Robert E. Payne

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

2007-1400

ABBOTT LABORATORIES,

Plaintiff-Appellant,

and

ASTELLAS PHARMA, INC.,

Plaintiff-Appellant,

v.

SANDOZ, INC.,

Defendant-Appellee,

and

SANDOZ GMBH,

Defendant,

and

TEVA PHARMACEUTICALS USA, INC. and
TEVA PHARMACEUTICAL INDUSTRIES, LTD.,

Defendants-Appellees,

and

RANBAXY LABORATORIES, LTD. and RANBAXY, INC.,

Defendants,

and

PAR PHARMACEUTICAL COMPANIES, INC. and PAR PHARMACEUTICAL,

Defendants.

2007-1446

LUPIN LIMITED,

Plaintiff/Counterclaim Defendant-
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and

LUPIN PHARMACEUTICALS, INC.,

Counterclaim Defendant-
Appellee,

v.

ABBOTT LABORATORIES,

Defendant/Counterclaimant-
Appellant,

and

ASTELLAS PHARMA, INC.,

Defendant/Counterclaimant-
Appellant.

Appeals from the United States District Court for the Northern District of Illinois in case no. 07-CV-1721, Judge Wayne R. Andersen and the United States District Court for the Eastern District of Virginia in case no 3:06-CV-400, Judge Robert E. Payne.

DECIDED: May 18, 2009

Before RADER, PLAGER, and BRYSON, Circuit Judges. MICHEL, Chief Judge, and RADER, BRYSON, GAJARSA, LINN, DYK, PROST, and MOORE, Circuit Judges, have joined Section III.A.2 of the opinion. Dissenting opinion as to Section III.A.2 filed by NEWMAN, Circuit Judge, in which MAYER and LOURIE, Circuit Judges, join. Dissenting opinion filed by LOURIE, Circuit Judge. SCHALL, Circuit Judge, did not participate as a member of the en banc court.

RADER, Circuit Judge.

In this case, the same patent, U.S. Patent No. 4,935,507 (the '507 patent), occasions litigation in both the United States District Court for the Eastern District of Virginia and the United States District Court for the Northern District of Illinois. The Virginia District Court granted the motion of Lupin Ltd. and Lupin Pharmaceuticals Inc. (collectively Lupin) for summary judgment of noninfringement. In the other case, the Illinois District Court denied a preliminary injunction to Abbott Laboratories, the exclusive licensee of the '507 patent, based on the claim construction from the Eastern District of Virginia.

Because the Eastern District of Virginia correctly construed the claims of the '507 patent and correctly discerned no genuine issues of material fact on literal infringement of claims 2-5 or infringement by equivalents of claims 1-5, this court affirms its partial summary judgment of noninfringement. Likewise, this court affirms the Northern District of Illinois' denial of Abbott's motion for a preliminary injunction, based in large part on the same correct claim construction.

I.

Abbott Laboratories, the exclusive licensee of the '507 patent, markets crystalline cefdinir according to the '507 patent under the trade name Omnicef. The Virginia case arose when Lupin sought a declaratory judgment of noninfringement against Abbott Laboratories and Astellas Pharma Inc., the owner of the '507 patent (collectively Abbott). The Food and Drug Administration had previously approved Lupin's Abbreviated New Drug Application (ANDA) to market a generic version of Omnicef. Lupin's generic product contains almost exclusively the Crystal B form of crystalline

cefdinir (cefdinir monohydrate), whereas Abbott's Omnicef product contains the Crystal A form of crystalline cefdinir (cefdinir anhydrate). Further, Lupin makes its products with processes other than those claimed in the '507 patent. For these reasons, Lupin brought the Virginia action to clarify that its proposed product would not infringe a valid patent. Abbott counterclaimed for infringement. The Eastern District of Virginia construed the claims, Lupin Ltd. v. Abbott Laboratories, 484 F. Supp. 2d 448 (E.D. Va. 2007) (Lupin CC Order), and ultimately granted-in-part Lupin's motion for summary judgment of noninfringement, as to both literal and equivalent infringement for claims 2-5 and as to equivalent infringement for claim 1, Lupin Ltd. v. Abbott Labs., 491 F. Supp. 2d 563 (E.D. Va. 2007) (Lupin SJ Order). The parties stipulated to the dismissal without prejudice of the remaining claims (invalidity) and counterclaims (literal infringement of claim 1).

In the Illinois action, Abbott sued Sandoz, Inc. and Sandoz GmbH (collectively Sandoz), Teva Pharmaceuticals USA, Inc. and Teva Pharmaceuticals Industries, Ltd. (collectively Teva), Ranbaxy Laboratories, Ltd., Ranbaxy, Inc., Par Pharmaceutical Companies, Inc., and Par Pharmaceutical (all defendants, collectively, Sandoz and Teva) for infringement of the '507 patent. Like Lupin, Sandoz and Teva had previously filed ANDAs, seeking to market generic versions of Omnicef. Abbott sought a preliminary injunction in the Illinois case. For purposes of that motion, the parties agreed to adopt the Eastern District of Virginia's claim construction from the Lupin case. Abbott Labs. v. Sandoz, Inc., 486 F. Supp. 2d 767 (N.D. Ill. 2007) (Sandoz PI Order). Despite this agreement, the parties to the Sandoz case disagreed as to how to interpret some of the Eastern District of Virginia's constructions, necessitating some clarification

by the Northern District of Illinois. 486 F. Supp. 2d at 770-71 (disputing “Crystal A,” “peaks,” and “about,” and seeking construction of “powder X-ray diffraction pattern,” which the Eastern District of Virginia had not defined). Ultimately, the Northern District of Illinois, based on the claim construction from Virginia, denied the preliminary injunction.

Both cases arrived at this court on appeal. This court heard the cases together and decides them together with this decision.

II.

The '507 patent has five claims, all of which Abbott asserts against Lupin as well as Sandoz and Teva. Claim 1 claims crystalline cefdinir, using its chemical name, and defining its unique characteristics with powder X-ray diffraction (PXRD) angle peaks:

1. Crystalline 7-[2-(2-aminothiazol-4-yl)-2-hydroxyiminoacetamido]-3-vinyl-3-cephem-4-carboxylic acid (syn isomer) which shows the peaks at the diffraction angles shown in the following table in its powder X-ray diffraction pattern:

diffraction angle (°)
about 14.7°
about 17.8°
about 21.5°
about 22.0°
about 23.4°
about 24.5°
about 28.1°

'507 patent, col.16 ll.13-27. In contrast, claims 2-5 claim crystalline cefdinir, without any PXRD peak limitations, but with descriptions of processes used to obtain the crystalline cefdinir. Claims 2 and 5 are independent:

2. Crystalline 7-[2-(2-aminothiazol-4-yl)-2-hydroxyiminoacetamido]-3-vinyl-3-cephem-4-carboxylic acid (syn isomer) which is obtainable by

acidifying a solution containing 7-[2-(2-aminothiazol-4-yl)-2-hydroxyiminoacetamido]-3-vinyl-3-cephem-4-carboxylic acid (syn isomer) at room temperature or under warming.

5. Crystalline 7-[2-(2-aminothiazol-4-yl)-2-hydroxyiminoacetamido]-3-vinyl-3-cephem-4-carboxylic acid (syn isomer) which is obtainable by dissolving 7-[2-(2-aminothiazol-4-yl)-2-hydroxyiminoacetamido]-3-vinyl-3-cephem-4-carboxylic acid (syn isomer) in an alcohol, continuing to stir the solution slowly under warming, then cooling the solution to room temperature and allowing the solution to stand.

Id. at col.16 ll.29-34, 43-50.

These claims use PXRD as a way to claim the structure and characteristics of the unique crystalline form. PXRD is a method for identifying and distinguishing different crystalline compounds. The method beams X-rays toward a powdered chemical. The method then measures the ways the rays reflect or bend upon contact with the chemical. The diffraction angles and intensities vary with the type and purity of the test compound. A graph then plots the diffraction angle on one axis and the intensity on another. These graphs yield a unique “fingerprint” for each crystalline form of a chemical. A more sensitive form of X-ray diffraction is single crystal X-ray diffraction (SCXRD). As this name suggests, this method uses only a single crystal as a sample. SCXRD does not detect intensity, but produces a more precise diffraction angle measurement.

The '507 patent was not the first cefdinir patent. Rather, Astellas' prior art U.S. Patent No. 4,559,334 (the '334 patent) describes the discovery of cefdinir as a compound demonstrating high antimicrobial activity. '334 patent, col.11 ll.18-24. The '334 patent expired on May 6, 2007.

The '507 patent claims priority to Japanese Patent Application No. 62-206199 (the JP '199 application), which claimed two crystalline forms of cefdinir, “Crystal A” and

“Crystal B.” The JP '199 application claimed Crystals A and B very specifically, defining Crystal A by three infrared (IR)-absorption wavelengths and sixteen PXRD angles and intensities. In contrast, Crystal B featured five IR-absorption wavelengths and twenty-one PXRD angles/intensities.

Despite using the JP '199 application for priority, the '507 patent's specification differs significantly. Specifically, Abbott (actually Fujisawa Pharmaceutical Co., Ltd., Astellas' predecessor in interest) jettisoned the Crystal B disclosure found in the JP '199 application and crafted broader claims in its prosecution of the '507 patent. Because the JP '199 applications defines Crystal A and Crystal B physiochemically rather than structurally, the forms actually represent subgenuses of crystalline cefdinir. Thus Crystals A and B comprise crystalline forms of varying structures, which in the context of this case means varying levels of hydration.

The Eastern District of Virginia construed the claim terms “crystalline,” “shows,” “peaks,” and “about” as follows:

- 1) “crystalline” means “Crystal A as outlined in the specification”;
- 2) “shows” requires the display of a powder X-ray diffraction pattern which demonstrates the existence of the relevant peaks to a scientifically acceptable degree of certainty either visually or by other appropriate means of data display;
- 3) “peaks” is the plural of “peak;” a “peak exists at a powder X-ray diffraction angle that corresponds to an intensity measurement greater than measurements attributable to “noise” if that angle is immediately preceded by and followed by powder X-ray diffraction angle with a lower intensity measurement; “noise” refers to those portions of a PXRD pattern produced by intrinsic measurement error, and which cannot be associated with a scientifically significant quantity of the material which is the subject of the PXRD test;
- 4) “about” encompasses measurement errors inherently associated with powder X-ray diffraction testing.

Lupin CC Order, 484 F. Supp. 2d at 459, 466. The Eastern District of Virginia also concluded that claims 2-5 were product-by-process claims. Id. Later the district court concluded that the process terms of claims 2-5, indicated by the phrase “obtainable by,” limit the claims to the specified processes and process steps. In reaching that conclusion, the trial court followed this court’s opinion in Atlantic Thermoplastics Co. v. Faytex Corp., 970 F.2d 834 (Fed. Cir. 1992). Lupin SJ Order, 491 F. Supp. 2d at 567-68; Lupin Ltd. v. Abbott Labs., No. 3:06-CV-400 (E.D. Va. May 10, 2007) (Lupin PbyP Order). In the Lupin appeal, Abbott challenges only the Eastern District of Virginia’s constructions of “crystalline” and “obtainable by.”

III.

Evaluation of a summary judgment of noninfringement requires two steps: claim construction, which this court reviews without deference, Cybor Corp. v. FAS Technologies, Inc., 138 F.3d 1448, 1451 (Fed. Cir. 1998) (en banc), and comparison of the properly construed claims to the accused product, process, or composition of matter, which in the context of summary judgment also occurs without deference, see Ormco Corp. v. Align Technologies, Inc., 498 F.3d 1307, 1312 (Fed. Cir. 2007). Although infringement by equivalency is a question of fact, this court may affirm summary judgment “where no reasonable fact finder could find equivalence.” Sage Prods., Inc. v. Devon Indus., Inc., 126 F.3d 1420, 1423 (Fed. Cir. 1997) (citing Warner-Jenkinson Co. v. Hilton Davis Chemical Co., 520 U.S. 17, 39 n.8 (1997)).

A. Claim Construction

Because the claims define the patent right, see Innova/Pure Water, Inc. v. Safari Water Filtration Systems, Inc., 381 F.3d 1111, 1115 (Fed. Cir. 2004), naturally “the

claims themselves provide substantial guidance as to the meaning of particular claim terms.” Phillips v. AWH Corp., 415 F.3d 1303, 1314 (Fed. Cir. 2005) (en banc). But the claims “must be read in view of the specification, of which they are a part.” Markman v. Westview Instruments, Inc., 52 F.3d 967, 979 (Fed. Cir. 1995) (en banc), aff’d, 517 U.S. 370 (1996). A patent’s specification provides necessary context for understanding the claims, and “is always highly relevant to the claim construction analysis.” Phillips, 415 F.3d at 1315 (quoting Vitronics Corp. v. Conceptronic, Inc., 90 F.3d 1576, 1582 (Fed. Cir. 1996)). While equally true in a general sense, sometimes the specification offers practically incontrovertible directions about claim meaning. For example, inventors may act as their own lexicographers and give a specialized definition of claim terms. See id. at 1316. Likewise, inventors and applicants may intentionally disclaim, or disavow, subject matter that would otherwise fall within the scope of the claim. See id.

When consulting the specification to clarify the meaning of claim terms, courts must take care not to import limitations into the claims from the specification. This court has recognized the “fine line between” the encouraged and the prohibited use of the specification. Comark Commc’ns, Inc. v. Harris Corp., 156 F.3d 1182, 1186 (Fed. Cir. 1998). When the specification describes a single embodiment to enable the invention, this court will not limit broader claim language to that single application “unless the patentee has demonstrated a clear intention to limit the claim scope using ‘words or expressions of manifest exclusion or restriction.’” Liebel-Flarsheim Co. v. Medrad, Inc., 358 F.3d 898, 906 (Fed. Cir. 2004) (quoting Teleflex, Inc. v. Ficosa N. Am. Corp., 299 F.3d 1313, 1327 (Fed. Cir. 2002)). By the same token, the claims cannot “enlarge what is patented beyond what the inventor has described as the invention.” Biogen, Inc. v.

Berlex Labs., Inc., 318 F.3d 1132, 1140 (Fed. Cir. 2003) (quoting Netword, LLC v. Central Corp., 242 F.3d 1347, 1352 (Fed. Cir. 2001)). Thus this court may reach a narrower construction, limited to the embodiment(s) disclosed in the specification, when the claims themselves, the specification, or the prosecution history clearly indicate that the invention encompasses no more than that confined structure or method. See Liebel-Flarsheim, 358 F.3d at 908.

Along with the specification, the prosecution history is “intrinsic evidence” of the meaning of the claims, because it “provides evidence of how the [United States Patent & Trademark Office (PTO)] and the inventor understood the patent.” Phillips, 415 F.3d at 1317. Although often producing ambiguities occasioned by ongoing negotiations between the inventor and the PTO, “the prosecution history can often inform the meaning of the claim language by demonstrating how the inventor understood the invention and whether the inventor limited the invention in the course of prosecution, making the claim scope narrower than it would otherwise be.” Id. “[C]lear and unmistakable” statements during prosecution may also disavow claim scope. Computer Docking Station Corp. v. Dell, Inc., 519 F.3d 1366, 1374 (Fed. Cir. 2008) (quoting Purdue Pharma L.P. v. Endo Pharms., Inc., 438 F.3d 1123, 1136 (Fed. Cir. 2006)). Again owing in part to the inherent ambiguities of prosecution history, the doctrine of prosecution disclaimer only applies to unambiguous disavowals. See id. at 1375.

1. “crystalline”

The Eastern District of Virginia's construction of "crystalline" in claims 1-5 as "Crystal A" included the important caveat "as outlined in the specification." Lupin CC Order, 484 F. Supp. 2d at 459. Although the Eastern District noted the parties agreed that "crystalline" ordinarily means exhibiting "uniformly arranged molecules or atoms," id. at 454, the court relied on the language of the claims themselves, the specification, and the prosecution history to arrive at the more specific meaning recited in the specification.

The '507 specification states that "Crystal A of the compound (I) [cefdinir] shows its distinguishing peaks" at the seven particular PXRD angles enumerated in claim 1. '507 patent col.1 ll.51-62. Indeed, the phrase "Crystal A of the compound (I)" appears throughout the written description, and the patent offers the following definition: "any crystal of the compound (I) which shows substantially the same diffraction pattern [as in the table in col.1/claim 1] is identified as Crystal A of the compound (I)." Id. at col.1 l.67-col.2 l.2. As the Eastern District correctly concluded:

Had Astellas intended, in the chart found in column 1, to distinguish Crystal A from other forms of crystalline cefdinir that also fall within the scope of claim 1, it would have listed, at a minimum, an eighth peak associated only with Crystal A. However, by listing in column 1 only the same seven 'distinguishing' peaks featured in Claim 1, Astellas confirmed that Crystal A was synonymous with the invention listed in Claim 1.

Lupin CC Order, 484 F. Supp. 2d at 456-57. The problem, within the confines of claim 1, is that defining "crystalline" as "Crystal A," where "Crystal A" incorporates the seven PXRD peak limitations, arguably renders the remainder of that claim redundant. To distinguish the invention, however, the specification refers several times to "Crystal A of the compound (I) of the present invention," see, e.g., '507 patent, col.2 ll.15-17, and offers no suggestion that the recited processes could produce non-Crystal A

compounds, even though other types of cefdinir crystals, namely Crystal B, were known in the art. As noted earlier, the Crystal B formulation actually appears in the parent JP '199 application. Thus, Abbott knew exactly how to describe and claim Crystal B compounds. Knowing of Crystal B, however, Abbott chose to claim only the A form in the '507 patent. Thus, the trial court properly limited the term "crystalline" to "Crystal A." The trial court's definition correctly identifies claim 1's literal scope.

Unlike claim 1, claims 2-5 do not recite the seven PXRD peaks expressly associated with Crystal A in the '507 specification. Nonetheless, the Eastern District of Virginia limited "crystalline" to "Crystal A" in these claims as well. The trial court gave two reasons for this limitation. First, "[t]he process steps detailed in those claims [claims 2-5] correspond with the processes for making Crystal A disclosed in the specification under the heading 'The Process For Preparing Crystal A of The Compound (I).'" Id. at 457 (quoting '507 patent, col.2 ll.13-14). Second, the parent JP '199 application recited these steps "to distinguish between preparations of Crystal A and Crystal B." Id. (citing JP '199 application, col.6 ll.1-25).

In limiting "crystalline" to "Crystal A" in claims 1-5, the Eastern District of Virginia did not improperly import the preferred embodiment into the claims. Initially, Crystal A is the only embodiment described in the specification. As discussed above, the specification's recitation of Crystal A as its sole embodiment does not alone justify the trial court's limitation of claim scope to that single disclosed embodiment. See Liebel-Flarsheim, 358 F.3d at 906 ("[T]his court has expressly rejected the contention that if a patent describes only a single embodiment, the claims of the patent must be construed as being limited to that embodiment."). In this case, however, the rest of the intrinsic

evidence, including the prosecution history and the priority JP '199 application, evince a clear intention to limit the '507 patent to Crystal A as defined by the seven PXRD peaks in the specification and in claim 1.

Initially, the Eastern District of Virginia properly considered the JP '199 application as relevant objective evidence of the inventor's knowledge at the filing of the '507 patent. While statements made during prosecution of a foreign counterpart to a U.S. patent application have a narrow application to U.S. claim construction, Pfizer Inc. v. Ranbaxy Labs. Ltd., 457 F.3d 1284, 1290 (Fed. Cir. 2006), in this case the JP '199 application is part of the prosecution history of the '507 patent itself. Indeed the '507 patent claims priority from the JP '199 application. Furthermore, the trial court did not rely on attorney argument or amendments during a foreign prosecution as in Pfizer, but consulted only the contents of the foreign priority application. The JP '199 application strongly suggests that the '507 patent intentionally excluded Crystal B compounds. As discussed above, the JP '199 application establishes unequivocally that Abbott knew and could describe both Crystal A and Crystal B. Abbott could have retained the disclosure of Crystal B to support the broader claims of the '507 patent, but instead disclosed and claimed A alone.

Furthermore, the prosecution history of the '507 patent shows a clear and intentional disavowal of claim scope beyond Crystal A. Co-inventor Takao Takaya, who prepared samples according to Examples 14 and 16 of the prior art '334 patent and a sample of "Crystal A of the present application," offered a declaration that Crystal A was more stable than the prior art samples from the '334 patent. An analytical chemist, Yoshihiko Okamoto, corroborated this evidence. J. A. 501-04. Beyond these

declarations, the applicant specifically limited the invention to Crystal A: “the method of preparation of the crystalline form of the presently claimed compounds is not considered the heart of the present invention. The crystalline form of the compound represents the inventive concept hereof, and it is clear that [the '334 patent] does not anticipate or suggest said crystalline form.” J. A. 511 (Response to Office Action of May 11, 1989, received October 27, 1989, at 6).

Given the exclusive focus on Crystal A in the specification as well as the prosecution history of the '507 patent, the Eastern District of Virginia properly limited “crystalline” in claims 1-5 to “Crystal A.”

2. proper interpretation of product-by process claims¹

This court addresses Part III.A.2 of this opinion en banc, which addresses the proper interpretation of product-by-process claims in determining infringement.

Claims 2-5 of the '507 patent begin by reciting a product, crystalline cefdinir, and then recite a series of steps by which this product is “obtainable.” The Eastern District of Virginia correctly categorized claims 2-5 as product-by-process claims. On appeal, Abbott argues that the Eastern District erred in construing the process steps of claims 2-5 under the rule in Atlantic Thermoplastics, 970 F.2d at 846-47, that “process terms in product-by-process claims serve as limitations in determining infringement,” rather than in accordance with Scripps Clinic & Research Foundation v. Genentech, Inc., 927 F.2d 1565, 1583 (Fed. Cir. 1991) (“[T]he correct reading of product-by-process claims is that

¹ This court, sua sponte, took en banc Section III.A.2 before issuing a panel opinion. The following judges join this section of the opinion: Chief Judge Michel and Judges Rader, Bryson, Gajarsa, Linn, Dyk, Prost, and Moore. Judges Newman and Lourie dissent in separate opinions. Judges Mayer and Lourie join in Judge Newman’s dissent. Judge Schall did not participate as a member of the en banc court.

they are not limited to product prepared by the process set forth in the claims.”). This court takes this opportunity to clarify en banc the scope of product-by-process claims by adopting the rule in Atlantic Thermoplastics.

In Atlantic Thermoplastics, this court considered the scope of product-by-process claim 26 in the patent at issue: “[t]he molded innersole produced by the method of claim 1.” 970 F.2d at 836. The patentee urged that competing, indistinguishable innersoles made by a different method nonetheless infringed claim 26. Id. at 838. This court rejected the patentee’s position. This court in Atlantic Thermoplastics construed product-by-process claims as limited by the process. Id. at 846-7.

This rule finds extensive support in Supreme Court opinions that have addressed the proper reading of product-by-process claims. See Smith v. Goodyear Dental Vulcanite Co., 93 U.S. 486, 493 (1877) (“The process detailed is thereby made as much a part of the invention as are the materials of which the product is composed.”); Goodyear Dental Vulcanite Co. v. Davis, 102 U.S. 222, 224 (1880) (“[T]o constitute infringement of the patent, both the material of which the dental plate is made . . . and the process of constructing the plate . . . must be employed.”); Merrill v. Yeomans, 94 U.S. 568 (1877); Cochrane v. Badische Anilin & Soda Fabrik, 111 U.S. 293 (1884) (BASF); The Wood-Paper Patent, 90 U.S. 566, 596 (1874); Plummer v. Sargent, 120 U.S. 442 (1887); Gen. Elec. Co. v. Wabash Appliance Corp., 304 U.S. 364 (1938); see also Atl. Thermoplastics, 970 F.2d at 839-42 (discussing each of these cases). In these cases, the Supreme Court consistently noted that process terms that define the product in a product-by-process claim serve as enforceable limitations. In addition, the binding case law of this court’s predecessor courts, the United States Court of Customs

and Patent Appeals (see In re Hughes, 496 F.2d 1216, 1219 (CCPA 1974) (acknowledging that “true product claims” are “broader” in scope than product-by-process claims)), and the United States Court of Claims (see Tri-Wall Containers v. United States, 408 F.2d 748, 751 (Ct. Cl. 1969)), followed the same rule.

This court's sister circuits also followed the general rule that the defining process terms limit product-by-process claims. See, e.g., Hide-It Leather v. Fiber Prods., 226 F. 34, 36 (1st Cir. 1915) (“It is also a well-recognized rule that, although a product has definite characteristics by which it may be identified apart from the process, still, if in a claim for the product it is not so described, but is set forth in the terms of the process, nothing can be held to infringe the claim which is not made by the process.”); Paeco, Inc. v. Applied Moldings, Inc., 562 F.2d 870, 876 (3d Cir. 1977) (“A patent granted on a product claim describing one process grants no monopoly as to identical products manufactured by a different process.”). Indeed, this court itself had articulated that rule: “For this reason, even though product-by-process claims are limited by and defined by the process, determination of patentability is based on the product itself.” In re Thorpe, 777 F.2d 695, 697 (Fed. Cir. 1985) (emphasis added).

The Supreme Court has long emphasized the limiting requirement of process steps in product-by-process claims. In BASF, the Court considered a patent relating to artificial alizarine. Specifically, the patent claimed “[a]rtificial alizarine, produced from anthracine or its derivatives by either of the methods herein described, or by any other method which will produce a like result.” 111 U.S. at 296 (quoting U.S. Patent Reissue No. RE 4,321). In turn, the specification generally described a method for making artificial alizarine involving anthracine or its derivatives. Alizarine had been in use for

thousands of years as a red textile dye, traditionally extracted from madder root. Pure alizarine has the chemical formula $C_{14}H_8O_4$, but “artificial alizarines” available in the market at the time of the litigation varied from almost completely pure alizarine, to combinations of alizarine and anthrapurpurine, to pure purpurine containing no alizarine whatsoever. Id. at 309-10. The defendant’s product contained approximately sixty percent anthrapurpurine. Thus both alizarine and artificial alizarines were known in the prior art. The Supreme Court clearly articulated some of the scope and validity problems that arise when process limitations of product-by-process claims are ignored:

[The defendant’s product] is claimed by the plaintiff to be the artificial alizarine described in No. 4,321, and to be physically, chemically, and in coloring properties similar to that. But what that is is not defined in No. 4,321, except that it is the product of the process described in No. 4,321. Therefore, unless it is shown that the process of No. 4,321 was followed to produce the defendant’s article, or unless it is shown that that article could not be produced by any other process, the defendant’s article cannot be identified as the product of the process of No. 4,321. Nothing of the kind is shown.

* * *

If the words of the claim are to be construed to cover all artificial alizarine, whatever its ingredients, produced from anthracine or its derivatives by methods invented since Graebe and Liebermann invented the bromine process, we then have a patent for a product or composition of matter which gives no information as to how it is to be identified. Every patent for a product or composition of matter must identify it so that it can be recognized aside from the description of the process for making it, or else nothing can be held to infringe the patent which is not made by that process.

Id. at 310 (emphasis added).

After BASF, the Supreme Court continued to emphasize the importance of process steps in evaluating the infringement of product-by-process claims. See, e.g., Plummer, 120 U.S. at 448 (“[W]hatever likeness that may appear between the product of the process described in the patent and the article made by the defendants, their

identity is not established unless it is shown that they are made by the same process.”); Gen. Elec. Co., 304 U.S. at 373 (“[A] patentee who does not distinguish his product from what is old except by reference, express or constructive, to the process by which he produced it, cannot secure a monopoly on the product by whatever means produced.” (footnote omitted)).

Thus, based on Supreme Court precedent and the treatment of product-by-process claims throughout the years by the PTO and other binding court decisions, this court now restates that “process terms in product-by-process claims serve as limitations in determining infringement.” Atl. Thermoplastics, 970 F.2d at 846-47. As noted earlier, this holding follows this court’s clear statement in In re Thorpe that “product by process claims are limited by and defined by the process.” 777 F.2d at 697.

More recently, the Supreme Court has reiterated the broad principle that “[e]ach element contained in a patent claim is deemed material to defining the scope of the patented invention.” Warner-Jenkinson, 520 U.S. at 19. Although Warner-Jenkinson specifically addressed the doctrine of equivalents, this rule applies to claim construction overall. As applied to product-by-process claims, Warner-Jenkinson thus reinforces the basic rule that the process terms limit product-by-process claims. To the extent that Scripps Clinic is inconsistent with this rule, this court hereby expressly overrules Scripps Clinic.

The dissenting opinions lament the loss of a “right” that has never existed in practice or precedent – the right to assert a product-by-process claim against a defendant who does not practice the express limitations of the claim. This court’s en banc decision in no way abridges an inventor’s right to stake claims in product-by-

process terms. Instead this decision merely restates the rule that the defining limitations of a claim – in this case process terms – are also the terms that show infringement.

Thus this court does not question at all whether product-by-process claims are legitimate as a matter of form. The legitimacy of this claim form was indeed a relevant issue in the nineteenth century when Ex parte Painter, 1891 C.D. 200, 200-01 (Comm'r Pat. 1891), and some later cases were before the Commissioner of Patents. However, this court need not address that settled issue. The issue here is only whether such a claim is infringed by products made by processes other than the one claimed. This court holds that it is not.

The jurisprudence of the Court of Customs and Patent Appeals – a court with virtually no jurisdiction to address infringement litigation – can shed little light on the enforcement of the only claim limitations that an applicant chooses to define the invention. Indeed, this court's venerable predecessor expressed its ambivalence towards the relevant infringement analysis:

The policy of the Patent Office in permitting product-by-process type claims to define a patentable product, where necessary, has developed with full cognizance of the fact that in infringement suits some courts have construed such claims as covering only a product made by the particular process set forth in the claim and not to the product per se.

In re Bridgeford, 357 F.2d 679, 683 n.5 (CCPA 1966). The reference to “some courts” in this prior citation, as this court notes en banc, includes the United States Supreme Court and every circuit court to consider the question, including this circuit. See also Jon S. Saxe & Julian S. Levitt, Product-by-Process Claims and Their Current Status in Chemical Patent Office Practice, 42 J. Pat. Off. Soc'y 528, 530 (1960) (“[P]roduct-by-

process claims have met with a most strict interpretation in the courts in infringement proceedings [T]he courts uniformly hold that only a product produced by the claim-designated process may be held to infringe the claim.”) (citing Gen. Elec. Co., 304 U.S. 364 and BASF, 111 U.S. at 310).

Product-by-process claims, especially for those rare situations when products were difficult or impossible to describe, historically presented a concern that the Patent Office might deny all product protection to such claims. See In re Butler, 17 C.C.P.A. 810, 813 (CCPA 1930) (“Process claims are valuable, and appellant thinks he is entitled to them; but it is submitted that he should not be limited to control of the process when the article which that process produces is new and useful.”). In the modern context, however, if an inventor invents a product whose structure is either not fully known or too complex to analyze (the subject of this case – a product defined by sophisticated PXRD technology – suggests that these concerns may no longer in reality exist), this court clarifies that the inventor is absolutely free to use process steps to define this product. The patent will issue subject to the ordinary requirements of patentability. The inventor will not be denied protection. Because the inventor chose to claim the product in terms of its process, however, that definition also governs the enforcement of the bounds of the patent right. This court cannot simply ignore as verbiage the only definition supplied by the inventor.

This court’s rule regarding the proper treatment of product-by-process claims in infringement litigation carries its own simple logic. Assume a hypothetical chemical compound defined by process terms. The inventor declines to state any structures or characteristics of this compound. The inventor of this compound obtains a product-by-

process claim: “Compound X, obtained by process Y.” Enforcing this claim without reference to its defining terms would mean that an alleged infringer who produces compound X by process Z is still liable for infringement. But how would the courts ascertain that the alleged infringer’s compound is really the same as the patented compound? After all, the patent holder has just informed the public and claimed the new product solely in terms of a single process. Furthermore, what analytical tools can confirm that the alleged infringer’s compound is in fact infringing, other than a comparison of the claimed and accused infringing processes? If the basis of infringement is not the similarity of process, it can only be similarity of structure or characteristics, which the inventor has not disclosed. Why also would the courts deny others the right to freely practice process Z that may produce a better product in a better way?

In sum, it is both unnecessary and logically unsound to create a rule that the process limitations of a product-by-process claim should not be enforced in some exceptional instance when the structure of the claimed product is unknown and the product can be defined only by reference to a process by which it can be made. Such a rule would expand the protection of the patent beyond the subject matter that the inventor has “particularly point[ed] out and distinctly claim[ed]” as his invention, 35 U.S.C. § 112 ¶ 6.

Thus, the Eastern District of Virginia correctly applied the rule that the recited process steps limit the product-by-process claims 2-5 for any infringement analysis.

3. “obtainable by”

In this case, Abbott's plain language argument, that "obtainable by" introduces an optional process, even if "obtained by" would introduce limiting process steps, is also unavailing. The BASF case, an analogous situation to this case, controls. As noted above, the Supreme Court in BASF considered the following claim language: "Artificial alizarine, produced from anthracine or its derivatives by either of the methods herein described, or by any other method which will produce a like result." 111 U.S. at 296 (emphasis added). The patentee argued that even though the defendant did not make artificial alizarine by "either of the methods herein described," the claim should capture the product because of the "or by another method" language. Id. at 309. The Supreme Court refused to attach importance to those expansive words: "No. 4,321 furnishes no test by which to identify the product it covers, except that such product is to be the result of the process it describes." Id. at 305. Abbott's claims 2-5, like those in BASF and like product-by-process claims in general, do not furnish any test by which to identify the cefdinir crystals except that they are the result of their respectively claimed processes. As per BASF, Abbott's claim cannot capture a product obtained by or obtainable by processes other than those explicitly recited in the claims.

If this court were to strip the process elements from the claims, as Abbott would urge, for infringement purposes, there would then be nothing to differentiate independent claim 2 from independent claim 5. After all, if those claims are not bound by the process terms but only "define" the basic cefdinir compound, then each of the claims recite the same thing, over and over again. Though Abbott argues that it merely intends to give meaning to the word "obtainable," it instead seeks to have this court

render meaningless the explicit process limitations that the applicant chose to define its invention.

The intrinsic evidence in this case further rebuts Abbott's contention that its claims are not limited to those products actually obtained by the processes recited. In column 2 of the '507 patent, under the title heading "The Process for Preparing Crystal A of the Compound (I)," the patentee used specific language to describe the very two processes that are mirrored in claims 2 and 5. '507 patent col.2 ll.13-51. This language is not open-ended, nor does it constitute a mere description of the product by reference to the manner in which it can be made, as Abbott argues. By drafting claims 2 and 5 to incorporate these specific processes, Abbott made a conscious choice to place process requirements on its claimed product. If Abbott had wanted to obtain broader coverage for crystalline cefdinir devoid of any process limitations, as it seeks to do here, it could have simply done so (if indeed, as it argues, it is really the product that is the heart of the invention, not the process). But it did not. The crystals of claims 2 and 5 are simply not identifiable other than by the processes disclosed in column 2. This court must enforce the ways and terms that a party chooses to define its invention.

The prosecution history also does not support Abbott's contention that "obtainable by" offers merely an optional set of definitional process conditions. During prosecution, Abbott faced obviousness rejections based on application claims 6-9, which were process claims that mirrored the very process limitations of issued claims 2-5. The PTO refused to issue the claims until one set of duplicates was cancelled. Abbott's action in cancelling claims 6-9 demonstrates its acquiescence to the PTO's view that the process elements of claims 2-5 are critical parts of those claims. In

addition, in a response to the PTO's office action, Abbott chose to differentiate a cited § 103 reference, Takaya, on the basis that Abbott's claimed processes are different. For these reasons, the applicant's statement in the file wrapper that "the method of preparation . . . is not considered the heart of the present invention" should not be afforded undue gravitas. The process limitations cannot be haphazardly jettisoned for an infringement analysis when they were so important in the patentability analysis.

In sum, a patentee's use of the word "obtainable" rather than "obtained by" cannot give it a free pass to escape the ambit of the product-by-process claiming doctrine. Claims that include such ambiguous language should be viewed extremely narrowly. If this court does not require, as a precondition for infringement, that an accused infringer actually use a recited process, simply because of the patentee's choice of the probabilistic suffix "able," the very recitation of that process becomes redundant. This would widen the scope of the patentee's claims beyond that which is actually invented—a windfall to the inventor at the expense of future innovation and proper notice to the public of the scope of the claimed invention. For all the above reasons, the Eastern District of Virginia correctly construed the process limitations beginning with "obtainable by" in claims 2-5 as limiting the asserted claims to products made by those process steps.

B. Summary Judgment

In the Lupin case, the Eastern District of Virginia granted summary judgment of noninfringement of claims 2-5, both literal and by equivalents, and of claim 1 by equivalents. Lupin SJ Order. Literal infringement of claim 1, i.e., whether Lupin's generic cefdinir product contains any Crystal A, is therefore not a live issue on appeal.

As for claims 2-5, the Eastern District noted that “Abbott and Astellas have conceded that literal infringement of Claims 2-5 cannot be established if the product-by-process analysis is performed pursuant to Atlantic Thermoplastics,” given that “Abbott and Astellas have presented no evidence that Lupin is practicing the process steps set forth in Claims 2-5.” Lupin SJ Order, 491 F. Supp. 2d at 568. Because the Eastern District correctly applied the rule from Atlantic Thermoplastics and likewise properly construed the limiting process terms in claims 2-5, only infringement by equivalents of claims 1-5 remains before this court.

Infringement analysis under the doctrine of equivalents proceeds element-by-element; a generalized showing of equivalency between the claim as a whole and the allegedly infringing product or process is not sufficient to show infringement. See Warner-Jenkinson, 520 U.S. at 29 (“the doctrine of equivalents must be applied to individual elements of the claim, not to the invention as a whole”). The primary test for equivalency is the “function-way-result” or “triple identity” test, whereby the patentee may show an equivalent when the accused product or process performs substantially the same function, in substantially the same way, to achieve substantially the same result, as disclosed in the claim. Graver Tank & Mfg. Co. v. Linde Air Prods. Co., 339 U.S. 605, 608 (1950). But, because “[d]ifferent linguistic frameworks may be more suitable to different cases,” Warner-Jenkinson, 520 U.S. at 40, the function-way-result test is not the only test for equivalency. Equivalency may also be proven where the differences between the invention as claimed and the accused product or process are insubstantial. Hilton Davis Chem. Co. v. Warner-Jenkinson Co., 62 F.3d 1512, 1517-18 (Fed. Cir. 1995) (en banc), rev'd on other grounds, 520 U.S. 17 (1997). In no case,

however, may the doctrine of equivalents ignore the individual claim elements. See Warner-Jenkinson, 520 U.S. at 40 (requiring “a special vigilance against allowing the concept of equivalence to eliminate completely any such [individual] elements”).

Because “crystalline” in claims 1-5 is limited to “Crystal A” as defined by the seven PXRD peaks enumerated in claim 1 and in the specification of the '507 patent, the doctrine of equivalents cannot capture crystals that are not themselves equivalent to Crystal A. In turn, the bounds of Crystal A equivalents cannot ignore the limits on Crystal A in the '507 patent, which as discussed above, includes a conscious decision to distinguish Crystal B from the claimed invention. To recall, the applicant removed Crystal B from the US prosecution of the parent JP '199 application. The '507 patent indisputably describes and claims Crystal A, and not Crystal B. The '507 patent, of course, could have claimed the known Crystal B formulation which was known to the inventors because it appeared in their priority JP '199 application. The applicants chose not to claim Crystal B. Thus Crystal B compounds, most relevantly cefdinir monohydrate, fall outside the scope, literal or equivalent, of claims 1-5 of the '507 patent.

The parties agree that the “bulk” of Lupin’s cefdinir product is Crystal B, not Crystal A. The degree to which Lupin’s product may or may not also contain Crystal A is the central inquiry regarding the alleged literal infringement of claim 1, which is not part of the present appeal. Abbott cannot extend its exclusive right in the '507 claims under the doctrine of equivalents to embrace known but unclaimed subject matter. In other words, Abbott effectively disclaimed Crystal B during prosecution of the '507 patent, by removing the Crystal B disclosure from the parent JP '199 application and

emphasizing the sole teaching of Crystal A in communications with the PTO as well as in the '507 specification itself. Abbott cannot now recapture that unclaimed subject matter under the doctrine of equivalents because the Eastern District properly interpreted claims 2-5 to limit "crystalline" to Crystal A. To expand that claim term to embrace Crystal B would ignore the specific claim limitations of the '507 patent.

Alternatively this court notes that this case seems to fit within the dedication doctrine that forecloses invocation of the doctrine of equivalents. The patent applicant clearly knew of the Crystal B forms of the claimed invention because it claimed and disclosed them in its Japanese priority application. Yet it declined to claim an embodiment expressly disclosed in its priority document, thus dedicating that embodiment to the public and foreclosing any recapture under the doctrine of equivalents. See Johnson & Johnston Assocs. v. R.E. Serv. Co., 285 F.3d 1046, 1054 (Fed. Cir. 2002).

During prosecution, Abbott chose to eschew Crystal B and focus exclusively on Crystal A compounds. Without a complete record and no arguments about validity before this court on appeal, this court cannot speculate on the reasons for this choice. Nonetheless, the parties hotly contest whether Example 14, which reports obtaining "crystals" not specifically identified or described, and/or Example 16 of the '334 patent enable cefdinir monohydrate, i.e. Crystal B type crystals.

Beyond the attempt to reinflate the claims to encompass Crystal B based on mathematical comparisons of the PXRD peak patterns of Crystal A and Crystal B, Abbott also asserts that Lupin effectively admitted infringement by equivalents when it claimed before the Food and Drug Administration that its cefdinir generic was a

bioequivalent to Abbott's Omnicef product. While bioequivalency may be relevant to the function prong of the function-way-result test, bioequivalency and equivalent infringement are different inquiries. Bioequivalency is a regulatory and medical concern aimed at establishing that two compounds are effectively the same for pharmaceutical purposes. In contrast, equivalency for purposes of patent infringement requires an element-by-element comparison of the patent claim and the accused product, requiring not only equivalent function but also equivalent way and result. Different attributes of a given product may thus be relevant to bioequivalency but not equivalent infringement, and vice versa. As the Northern District of Illinois observed in the Sandoz case, "[i]f bioequivalency meant per se infringement, no alternative to a patented medicine could ever be offered to the public during the life of a patent." Sandoz PI Order, 486 F. Supp. 2d at 776. Thus, while potentially relevant, the bioequivalency of an accused product with a product produced from the patent at issue is not sufficient to establish infringement by equivalents.

Because Crystal B is not an equivalent of Crystal A, the Eastern District of Virginia did not err in granting summary judgment of noninfringement of claims 2-5, both with respect to literal and equivalent infringement, and with respect to equivalent infringement of claim 1.

IV.

This court reviews the grant or denial of a preliminary injunction for abuse of discretion. Amazon.com, Inc. v. Barnesandnoble.com, Inc., 239 F.3d 1343, 1350 (Fed. Cir. 2001). A district court may enter a preliminary injunction based on its consideration of four factors: "(1) the likelihood of the patentee's success on the merits; (2) irreparable

harm if the injunction is not granted; (3) the balance of hardships between the parties; and (4) the public interest.” Erico Int’l Corp. v. Vutec Corp., 516 F.3d 1350, 1353-54 (Fed. Cir. 2008) (quoting PHG Techs., LLC v. St. John Cos., Inc., 469 F.3d 1361, 1365 (Fed. Cir. 2006)).

Sandoz and Teva’s Omnicef generic products, like Lupin’s, are also at least primarily cefdinir monohydrate, a Crystal B compound. Sandoz PI Order, 486 F. Supp. 2d at 769. Before the Northern District of Illinois, the parties to the Sandoz litigation disputed whether Sandoz and Teva’s products also contained small amounts of cefdinir anhydrate, i.e., Crystal A, which would fall within the literal scope of claim 1 of the ’507 patent. Working primarily from the Eastern District of Virginia’s claim construction, to which the parties to the Sandoz litigation agreed would bind their litigation as well for purposes of the preliminary injunction motion, the Northern District of Illinois denied Abbott’s motion for a preliminary injunction, finding that Abbott was unlikely to prevail on the merits at trial.

This court detects no abuse of discretion in the Northern District of Illinois’ preliminary injunction denial. As described above, the ’507 patent is properly construed to exclude Crystal B, both as to literal and equivalent infringement. Thus, this court need not delve into the Northern District of Illinois’ clarifications of the Eastern District of Virginia’s claim constructions. The Northern District of Illinois succinctly concluded: “[w]e know that Crystal B was known to the plaintiffs because it had been included in the Japanese ’199 patent. Thus we conclude that the plaintiffs deliberately excluded from the definition of Crystal A, cefdinir monohydrate, which is Crystal B.” Id. at 775.

As to the alleged presence of small amounts of Crystal A in Sandoz and Teva's products, Abbott's evidence did not persuade the Northern District of Illinois. Id. This court perceives that decision as well within the trial court's discretion. As additional support, the Northern District observed that there was no evidence that any trace amounts of cefdinir anhydrate, i.e. Crystal A, in Sandoz and Teva's products "could be a contributing factor in the efficacy" and that even "if there is a small amount of cefdinir anhydrate in defendants' products, we do not conclude that this could cause literal infringement." Id. While these may be misstatements of the law, because de minimis infringement can still be infringement, see 35 U.S.C. § 271(a); see also SunTiger, Inc. v. Sci. Res. Funding Group, 189 F.3d 1327, 1336 (Fed. Cir. 1999) ("If a claim reads merely on a part of an accused device, that is enough for infringement."), this court need not reach that issue in a preliminary injunction context which affords the trial court broad leeway to discern a "likelihood of success." Likewise the district court may have overstated the relevance of efficacy, because the '507 patent contains no claim limitations relating to efficacy. But these misstatements were harmless because they merely formed an alternative basis for the Northern District of Illinois' reasonable assessment of the evidence proffered by Abbott for its preliminary injunction motion. As noted, this court sustains the trial court's discretion based primarily on its administration of the proper claim construction and its finding that Abbott was not likely to show Sandoz and Teva's products contained any Crystal A at all.

CONCLUSION

The Eastern District of Virginia correctly construed the '507 patent's recitation of "crystalline" in each of the asserted claims as limited to Crystal A, as outlined in the

specification. Because Abbott scrubbed all references to Crystal B in the '507 patent's specification, which were present in the '507 patent's parent foreign application, Abbott clearly demonstrated its intent to limit the '507 patent to Crystal A. This intent was further underscored by comments made during prosecution. As such, Abbott is unable to recapture Crystal B through broad claim language or under the doctrine of equivalents. The Eastern District of Virginia therefore properly concluded on summary judgment that Lupin's cefdinir product did not infringe claims 1-5 literally or claims 2-5 by equivalency. Similarly, the Northern District of Illinois did not abuse its discretion in declining to enter a preliminary injunction against Sandoz and Teva's cefdinir products.

AFFIRMED

COSTS

Each party shall bear its own costs.

United States Court of Appeals for the Federal Circuit

2007-1400

ABBOTT LABORATORIES,

Plaintiff-Appellant,

and

ASTELLAS PHARMA, INC.,

Plaintiff-Appellant,

v.

SANDOZ, INC.,

Defendant-Appellee,

and

SANDOZ GMBH,

Defendant,

and

TEVA PHARMACEUTICALS USA, INC. and
TEVA PHARMACEUTICAL INDUSTRIES, LTD.,

Defendants-Appellees,

and

RANBAXY LABORATORIES, LTD. and RANBAXY, INC.,

Defendants,

and

PAR PHARMACEUTICAL COMPANIES, INC. and PAR PHARMACEUTICAL,

Defendants.

2007-1446

LUPIN LIMITED,

Plaintiff/Counterclaim Defendant-
Appellee,

and

LUPIN PHARMACEUTICALS, INC.,

Counterclaim Defendant-
Appellee,

v.

ABBOTT LABORATORIES,

Defendant/Counterclaimant-
Appellant,

and

ASTELLAS PHARMA, INC.,

Defendant/Counterclaimant-
Appellant.

Appeals from the United States District Court for the Northern District of Illinois in case no. 07-CV-1721, Judge Wayne R. Andersen and the United States District Court for the Eastern District of Virginia in case no 3:06-CV-400, Judge Robert E. Payne.

NEWMAN, Circuit Judge, with whom Circuit Judges MAYER and LOURIE join, dissenting from en banc Section III.A.2.

The court today acts en banc to overturn a century of precedent and practice, and holds that a new product that is difficult to describe without reference to how it was made, but that is nonetheless a new and unobvious product, cannot be protected as a product if its description is aided by reference to how it was made. Heretofore a new product whose structure was not fully known or not readily described could be patented

as a product by including in the product description sufficient reference to how it can be made, to distinguish the new product from prior art products. Patentability was determined as a product, independent of any process reference in the claim, and validity and infringement were based on the product itself. This expedient for patenting products whose structure was not fully known at the time of filing the patent application has been called the “rule of necessity.” It was pragmatic, fair, and just, for it attuned patent law and practice to the realities of invention.

Today the court rejects this expedient and discards this practice, ruling that all claims containing a process term under the rule of necessity now must be construed, for purposes of infringement, as limited to use of any process term that was used to assist in defining the product. That is, such a product is not patented as a product, however it is produced, but is limited to the process by which it was obtained. This is a new restraint on patents for new products, particularly today’s complex chemical and biological products whose structure may be difficult to analyze with precision. It is a change of law with unknown consequences for patent-based innovation.

The court acts sua sponte, without explanation of what policy is intended to be served by this change, without consideration of the technologies that may be adversely affected by elimination of this expedient, without notice to those whose property rights may be diminished. In so doing, the court departs from statute, precedent, and practice. This change is as unnecessary as it is flawed, gratuitously affecting inventions past, present, and future. I respectfully dissent.

DISCUSSION

For most product inventions, the process by which the product was made, whether or not the process is itself a patentable invention, is not stated in the product claims. However, as the variety and complexity of invention and technology have increased, various forms of product claims with process terms have been used in specific circumstances, depending on the nature of the invention.¹ The form here at issue relates to product claims for new and unobvious products whose structure is not fully known, and for which process parameters are used to aid in defining the product. This claiming expedient has been recognized since at least 1891.

The court today overturns this expedient for all circumstances, brooking no exception. Acting en banc for the purpose, the court rules that if any process term or descriptive aspect is included in a product claim to aid in distinguishing a new product, the claim cannot be infringed by the identical product unless the same process aspect is used in making the accused product. The court holds that it is irrelevant whether the product is new or was known, irrelevant whether the product could have been fully described by its structure at the time of the patent application, irrelevant whether the particular invention is a new product or is actually a process. The court adopts a simplistic universal rule, thereby targeting a small but significant class of inventions. The effect of this decision on innovation in complex fields of science and technology is unknown to the court, for we have had no advice on the consequences of this change of

¹ As discussed by Eric P. Mirabel, Product-By-Process Claims: A Practical Perspective, 68 J. Pat. & Trademark Off. Soc'y 3, 3-4 (1986), the various forms of product-by-process claims include "true" product-by-process claims, product claims with a process limitation, product claims with a process-derived structural element, and product claims with functional terms.

law. My dissent is directed as much to the court's procedure, as to the substance of the court's decision.

I

PROCEDURE

The court has given no notice of this impending en banc action, contrary to the Federal Rules of Appellate Procedure and contrary to the Federal Circuit's own operating procedures. The en banc court has received no briefing and held no argument, although the Federal Rules so require. The communities of inventors, innovators, and the public who may be affected by this change of law have had no opportunity to be heard. The court has received no information concerning the effect on patents that were granted based on this long-established practice, no advice on what kinds of inventions may now lie fallow because they are unprotected. Nor does the court explain its suspension of the standards of judicial process.

The Federal Rules have the force of law. 28 U.S.C. §2072. Federal Rules of Appellate Procedure 34 and 35 are here implicated. Rule 34 provides that "oral argument must be allowed in every case" unless certain specific exceptions exist:

Rule 34(a)(2) Standards. Oral argument must be allowed in every case unless a panel of three judges who have examined the briefs and record unanimously agrees that oral argument is unnecessary for any of the following reasons:

- (A) the appeal is frivolous;
- (B) the dispositive issue or issues have been authoritatively decided; or
- (C) the facts and legal arguments are adequately presented in the briefs and record, and the decisional process would not be significantly aided by oral argument.

Applying the Rule 34 standards, it is clear that (A) this appeal is not frivolous and (B) the dispositive issue has not been authoritatively decided, for it is currently being addressed

en banc. There has been (C) no briefing and no record to the court, and this is not a case in which the decisional process would not be aided by oral argument. The en banc court has heard no argument, and has received neither written nor oral exploration of the diverse aspects of this long-established claiming practice.

Federal Rule of Appellate Procedure 35 has also failed of compliance. That rule recognizes the exceptional nature of en banc hearing or rehearing, and identifies the two circumstances warranting such procedure:

Rule 35(a) . . . An en banc hearing or rehearing is not favored and ordinarily will not be ordered unless:

- (1) en banc consideration is necessary to secure or maintain uniformity of the court's decisions; or
- (2) the proceeding involves a question of exceptional importance.

When an en banc hearing or rehearing is ordered sua sponte by the court, whether for uniformity of decision or on a question of exceptional importance, the hearing or rehearing must receive the appellate process set by the Rules.

I agree that en banc review is appropriate, for this apparent conflict in our precedent has existed since 1992. Now that the court has undertaken to resolve the conflict, the withholding of public notice, or even notice to the parties to this case, is devoid of justification. The question is of importance, but there has been no assertion of urgency sufficient to require bypassing the standard appellate procedures. The breadth of the en banc court's ruling, the solidity of the precedent now overruled, the importance of the technologies affected, and the untold issued patents that are now placed in limbo, require this court's compliance with Federal Rules 34 and 35.

The Federal Circuit has recognized that it can benefit from the advice of those knowledgeable in the law and its purposes, in the areas of our nation-wide

responsibility. Patent law has a direct impact on innovation, industry, and technological advance, and when an en banc ruling may change the law affecting some areas of technology and the industries based thereon, this court has routinely sought to be informed, by the parties and amici curiae, of relevant concerns. When the impact of a sua sponte change of law transcends the interests of the parties to the specific case, notice to the interested public, as well as to the parties, is fundamental to due and fair process. The Federal Circuit's Internal Operating Procedure (IOP) 14 was adopted to implement these principles:

IOP 14.3(c) If the sua sponte petition for hearing en banc is granted, a committee of judges appointed by the chief judge, which shall normally include the judge who initiated the poll, shall within seven working days (fourteen working days between June 21 and September 11) transmit on a vote sheet to the judges who will sit en banc an order setting forth the questions proposed to be addressed by the court en banc. The clerk shall provide notice that a majority of the judges in regular service has acted under 28 U.S.C. §46 and Fed. R. App. P. 35(a) to order the appeal to be heard en banc, and indicate any questions the court may wish the parties and amici to address. Notice shall be given that the court en banc shall consist of all circuit judges in regular service who are not recused or disqualified. Additional briefing and oral argument will be ordered as appropriate.

United States Court of Appeals for the Federal Circuit, Internal Operating Procedures at 40, available at <http://www.cafc.uscourts.gov/pdf/IOPs122006.pdf>. This IOP has not been followed. No notice was given, even to the parties, that the court had ordered this question to be reheard en banc; nor did the court advise the parties or the public as to the aspects being addressed for en banc decision. The court is acting sua sponte, without notice and without argument and without an opportunity for participation. By bypassing this court's standard operating procedure, as well as violating the Federal Rules of Appellate Procedure, the court has deprived itself of input concerning the

experience of precedent, of advice as to how this change of law may affect future innovation, and of guidance as to the effect on existing property rights.

II

PRECEDENT AND PRACTICE

The court's opinion does not mention the long-established precedent that it is overturning. This is not a simple conflict between isolated rulings of the Federal Circuit; it is a change of law and practice with roots in century-old decisions. I start with this precedent, for the expedient of what came to be called the "rule of necessity" originated in the recognition, by the courts and the Patent Office, that not all new products could be fully described by their structure, due to the state of scientific knowledge or available analytical techniques. It was also recognized, over a century ago, that sufficient distinction from prior art products could sometimes be achieved by reference to how the product was made. Thus the courts and patent administrators established the exception that permitted inclusion in a product claim of sufficient recitation of how the product was made, to aid in identifying the product and distinguishing it from the prior art. This claim form was loosely called a "product-by-process" form, although that term includes a variety of situations, see n.1 supra, having diverse legal consequences. The only form here at issue is that in which the product is new and its structure is not fully or readily known, such that its definition as a product is aided by referring to how it was made. Since before 1891, this has been an accepted way to claim products as products, recognizing that this is an exception to the general rule that new products are claimed without reference to the process by which they are produced.

This exception was discussed in 1891 in Ex parte Painter, the Commissioner of Patents explaining that when there is entitlement to a patent on a new article of manufacture, it can be claimed by reference to the process of producing it, when the inventor lacks other language to “define and discriminate” the invention:

It requires no argument to establish the proposition that as a rule a claim for an article of manufacture should not be defined by the process of producing that article. On the other hand, when a man has made an invention his right to a patent for it, or his right to a claim properly defining it, is not to be determined by the limitations of the English language. When the case arises that an article of manufacture is a new thing, a useful thing, and embodies invention, and that article cannot be properly defined and discriminated from prior art otherwise than by reference to the process of producing it, a case is presented which constitutes an exception to the rule.

1891 C.D. 200, 200-01 (Comm’r Pat. 1891). The Commissioner cited, as an earlier example of this exception, the claim in Globe Nail Co. v. U.S. Horse Nail Co., 19 F. 819 (C.C.D. Mass. 1884) (sustaining validity of claim directed to horse-shoe nail claimed by reference to its process of manufacture, and finding it infringed by the accused nail having only a “trivial and unsubstantial variation” from the claimed product). In contrast, where the patent application made clear that the product could be described by its structure, the Patent Office ruled that the exception did not apply. See, e.g., Ex parte Scheckner, 1903 C.D. 315, 315-16 (Comm’r Pat. 1903) (sustaining rejection of claim directed to an etched printing-plate that “specifies certain steps by means of which the etching is accomplished” because other claims “define the plate in terms of its structure”).

This expedient has been discussed in various judicial decisions. In all cases the issue has not been whether this expedient was available, for its availability was not challenged; the issue was simply its application to the particular facts. For example, at

a time when it heard direct appeals from Patent Office rulings, the D.C. Circuit remarked on this “only exception” to the general rule of product claiming, stating:

It is a well-settled rule of patent law that claims for a product which is defined by the process of producing it will not be allowed; and the only exception to this rule seems to be in cases where the product involves invention and cannot be defined except by the process used in its creation. In extreme cases of this character, the product may be allowed; but that is not this case, especially in view of the broad claims allowed appellant in his copending application

In re Brown, 29 F.2d 873, 874 (D.C. Cir. 1928) (emphasis added).

The Court of Customs and Patent Appeals discussed precedent involving claims for processes and products in various factual situations, and summarized that:

Where it is possible to define a product by its characteristics, the practice is clearly settled that this should be done. Where, however, the product is novel and involves invention and cannot be defined except by the steps of the process involved in its creation, there are cases holding that such a claim may be allowed, and it has been sustained by a Court.

In re Butler, 37 F.2d 623, 626 (CCPA 1930) (emphasis added) (quoting Ex Parte Feisenmeier, 1922 C.D. 18 (Comm’r Pat. 1922)). The CCPA then found this rule inapplicable to the facts of Butler’s invention, explaining that “the record at bar does not meet this requirement [that the product was new].” Id.

In In re Lifton, 189 F.2d 261 (CCPA 1951), the CCPA again commented on this exception for product claims, stating that when “proper article claims” were possible they must be used, with the exception of when such claims are “impossible”:

This court has uniformly held that a claim for an article must define the article by its structure and not by the process of making it. The one exception to this rule, where the invention is the article and it is impossible to otherwise define it, is clearly ruled out in the present case because appellant has demonstrated the possibility of proper article claims by including several devoid of process limitations.

Id. at 263 (emphasis added, citations omitted). The court again recognized “the one exception,” holding once again that it does not apply when the product can be described independently of the process of making it.

These inquiries into the facts warranting application of the exception demonstrate that the rule of necessity was seldom applied, but was nonetheless recognized both by the courts and the Patent Office. Decisions of the Patent Office Board of Appeals illustrate the practice. See, e.g., Ex parte Pfenning, 65 U.S.P.Q. 577 (Pat. Off. Bd. App. 1945) (allowing claim “directed to a product which results from the method of claim 9” in light of applicant’s argument that “it is impossible in the instant case to define the product adequately in terms of the elements which compose it or in terms of its physical characteristics”); Ex parte Lessig, 57 U.S.P.Q. 129 (Pat. Off. Bd. App. 1943) (allowing claim for a “product containing vulcanized rubber” strongly adhered to fibers which “has been prepared by the process of claim 4” because “it is not possible to otherwise distinguish over the art of record”).

Commentators have explained that this claiming practice became of increasing importance as the complex sciences blossomed. See, e.g., Mark D. Passler, Product-by-Process Patent Claims: Majority of the Court of Appeals for the Federal Circuit Forgets Purpose of the Patent Act, 49 U. Miami L. Rev. 233, 233 n.3 (1994) (“Such claims are often used by companies to patent complex drug or chemical products whose structure is not completely understood and, therefore, can only be accurately described by the process through which it is made.”). It is well known that the full structure of some chemical and biological products is not always known at the time the

patent application is filed. Indeed, it is a tenet of the scientific method that explanation and theory tend to follow, not precede, the observation of a development in the science.

The CCPA continued to recognize the use of process terms to aid in describing new products—the form of claim sometimes called a “pure” product-by-process claim, see n.1 supra—and repeatedly ruled that such claims are properly viewed as product, not process, claims. The court also disallowed such claims where the product itself was not novel and unobvious. The court confirmed that such a claim, when justified for a novel and unobvious product, is properly construed as encompassing the full scope of a product claim. For example, in In re Bridgeford, 357 F.2d 679 (CCPA 1966), the court again explained that a new product may be defined by the process of making it if there is no other way to describe the product, stressing that “the invention so defined is a product and not a process,” id. at 682. The Bridgeford court relied on this view of the scope of the product-by-process claims in a related patent, and held unpatentable for double patenting claims that defined the “product per se.” Id. at 680. The court explained that product-by-process claims are true product claims, and overruled the suggestion in In re Freeman, 166 F.2d 178, 181 (CCPA 1948), that product-by-process claims are “dependen[t] . . . on process limitations” and therefore coextensive with process claims. Bridgeford, 357 F.2d at 683 n.6 (“While there is some language in Freeman to support the contention that a product-by-process type claim differs only ‘in scope’ from a process type claim and they therefore ‘are directed to a single invention,’ (166 F.2d at 181) so far as this is inconsistent with our holding here it must be overruled.”).

My colleagues misstate the holding of Bridgeford, for Bridgeford directly contravenes today's holding. In Bridgeford the CCPA noted that "some courts" have construed claims with process steps as limited to the recited process, id. at 683 n.5, apparently without inquiring whether the rule of necessity justified full product scope for the invention at issue. The CCPA's observation that patents are construed inconsistently in other courts cannot be taken, as apparently do my colleagues, as error by the CCPA. To the contrary, the inconsistency among courts led eventually to consolidation.²

Again in In re Brown, 459 F.2d 531 (CCPA 1972), the CCPA explained that product-by-process claims are product claims, not process claims, and that the patentability of the product must be established independently of the process by which it is identified. See id. at 535 ("[I]n spite of the fact that the claim may recite only process limitations, it is the patentability of the product claimed and not of the recited process steps which must be established.").

Other decisions discussing application of this expedient to claims directed to complex new products include In re Pilkington, 411 F.2d 1345, 1349 (CCPA 1969) ("While we are satisfied that the references of record do not anticipate appellant's glass or demonstrate that it would be obvious, the differences between that glass and the glass of the prior art do not appear to us to be particularly susceptible to definition by the conventional recitation of properties or structure."), and In re Fessmann, 489 F.2d

² The Hruska Commission Report, which informed the debate that eventually led to the formation of our court, described the varying attitudes towards patents held by the regional courts of appeal and the variations in patent rulings among the circuits. See Commission on Revision of the Federal Court Appellate System Structure and Internal Procedures: Recommendations for Change, 67 F.R.D. 195, 370 (1975).

742, 743 (CCPA 1974) (affirming obviousness rejection of product-by-process claim directed to a “liquid smoke” product, but observing that prior art compositions “are complex mixtures of the chemical compounds which can be derived from wood” which “defy simple characterization and this fact presumably accounts for the use of product-by-process claims”). The need for this expedient, and the proper scope afforded such claims, is summarized in the treatise Walker on Patents:

[P]atent rights over a chemical product are typically independent of the process by which the product is made, and are particularly valuable because of this fact. This independence is normally accomplished by defining the product in terms of its structural features alone, with no reference in the claims to process steps whatsoever. The state of chemical technology, however, is sometimes too limited for a structural description of this type to be made. The structure of some chemicals, especially those including elaborate polymer chains, cannot be accurately determined. The same chemicals, however, may be both economically valuable and technologically reproducible, in the sense that they can be reliably made by subjecting a particular set of raw materials to a particular set of process steps.

* * *

The law reacted to these difficulties by making it easier to obtain traditional product protection over this special class of chemicals. The inventor was allowed to describe such a chemical in terms of how one gained possession of it, that is, by way of the process steps by which it was made. Once he did so, the law preserved to the inventor the fullest measure of product-only protection that it could; it treated the process recitations as proxies for the direct recitations of structure that could not be made. Such a claim was therefore equivalent to one stated in terms of structure only. It would broadly dominate all methods by which the chemical could be made or used. At the same time, it carried the same dangers of running afoul of the art: it would be anticipated if the chemical had been produced previously, even if by a method other than what the inventor disclosed.

1 Moy's Walker on Patents §4:74 (4th ed. 2008) (emphases added).

The en banc court appears to misunderstand this precedent, for my colleagues now state that “binding case law” of the Court of Customs and Patent Appeals and the Court of Claims mandates a single rule for all claims that contain any process terms,

whether the product is novel or known, citing In re Hughes, 496 F.2d 1216 (CCPA 1974), for this proposition. However, Hughes does not state this proposition; Hughes stands for the contrary proposition. In Hughes the question was the patentability of claims directed to “shakes” as are used in roofing, as follows:

12. Shakes manufactured from a shake bolt by the process of making a plurality of cuts into and across the shake bolt to an extent to establish predetermined tip lengths, and splitting the weather end portions of the shakes from the bolt by starting the splits at the inner ends of the cuts and continuing the splits to the end of the bolt.

This claim had been rejected as an improper product-by-process claim, on the ground that the product could be described without including process steps. The Hughes court acknowledged the general rule against product-by-process claiming, but also explained the “proper exception to the general rule” as first set forth in Painter, as follows:

[T]he Commissioner of Patents enunciated the general rule that a product should not be defined in terms of the process of making it. In Painter, a proper exception to the general rule was found on the ground that the product could not be properly defined and discriminated from the prior art otherwise than by reference to the process of producing it. This basic rule and the exception have been recognized and followed continuously by the Patent Office and the Courts.

Hughes, 496 F.2d at 1218 (quoting approvingly the Solicitor’s argument). The court reaffirmed that “in spite of the fact that a product-by-process claim may recite only process limitations, ‘it is the product which is covered by the claim and not the recited process steps.’” Id. Contrary to my colleagues’ statement, Hughes did not eliminate this form of claim, or change its role as a product claim. Indeed, the Hughes court applied the exception and reversed the Board’s rejection of a product-by-process claim, stating:

We agree with appellant that the [general] rule should not be applied to the situation before us. We have been shown no true product claim which describes appellant’s invention, in the words of the solicitor, “in terms of structure or physical characteristics.” When an applicant seeks to

describe his invention by a product-by-process claim because he finds that his invention is incapable of description solely by structure or physical characteristics, it is incumbent upon the Patent Office to indicate where, or how, the applicant's invention is, or may be, so described.

Id. at 1219. My colleagues could hardly have selected less apt support for their construction of product-by-process claims, for Hughes explicitly states that such claims are for the product, not the process.

In addition to misstating precedent of the CCPA, the en banc court also mischaracterizes the decisions of our predecessor the Court of Claims, stating that the Court of Claims' decisions support today's ruling. The court cites Tri-Wall Containers v. United States, 408 F.2d 748 (Ct. Cl. 1969), for this purpose. That citation, too, is mysterious, for in Tri-Wall Containers the court found that the claimed product was not "new" because it had been on sale for more than the permitted period, although the product that was on sale had been made by a different process than the process stated in the claim. The Court of Claims stated that the evidence showed that "the prior art product and the claimed product are structurally identical," id. at 751, and explained that a known product cannot be patented by including process terms in the claim:

It is well established that a product claimed as made by a new process is not patentable unless the product itself is new. The Wood-Paper Patent, 90 U.S. (23 Wall.) 566, 596, 23 L. Ed. 31 (1874), Cochrane v. Badische Anilin & Soda Fabrik ["BASF"], 111 U.S. 293, 311, 4 S. Ct. 455, 28 L. Ed. 433 (1884). . . .

. . . .
More recent cases point out that the addition of a method step in a product claim, which product is not patentably distinguishable from the prior art, cannot impart patentability to the old product. Jungerson v. Baden, 69 F. Supp. 922, 928 (D.C.S.D.N.Y. 1947), aff'd, 166 F.2d 807 (2d Cir. 1948), aff'd, 335 U.S. 560, 69 S. Ct. 269, 93 L. Ed. 235 (1949); In re Stephens, 345 F.2d 1020, 1023, 52 CCPA 1409 (1965).

Tri-Wall Containers, 408 F.2d at 750-51. This case applied the standard rule that old products cannot be patented—it contains no statement limiting the scope of claims that include process aspects to aid in describing new products. The Supreme Court cases cited in Tri-Wall are all directed to new processes for making old products—these are the same cases that the en banc court today incorrectly applies to new products, as I discuss post.

Contrary to my colleagues' statement, CCPA and Court of Claims precedent do not support today's en banc thesis. Our predecessor courts understood the complexity of patenting, and the CCPA consistently implemented the expedient whereby process terms contributed to the description of complex new products of incompletely known structure. These courts recognized the independence of product claims for new products, and did not limit such claims to the specific process steps that were used to aid in describing the product.³

With the advent of the Federal Circuit, this court continued to apply these principles. In In re Thorpe, 777 F.2d 695 (Fed. Cir. 1985), the court explained that

³ The en banc court impugns the CCPA's experience. Maj. op. at 18 (stating that the CCPA had "virtually no jurisdiction to address infringement litigation"). The CCPA for many years addressed infringement litigation, in appeals from the International Trade Commission and its predecessor tribunals. E.g., Sealed Air Corp. v. Int'l Trade Comm'n, 645 F.2d 976 (CCPA 1981) (issues of validity and infringement); Hale Fire Pump Co. v. Tokai, Ltd., 614 F.2d 1278 (CCPA 1980) (issues of validity, scope, and infringement); In re Orion, 71 F.2d 458 (CCPA 1934) (issues of jurisdiction and infringement).

Our predecessor's legal and scholarly distinction in the field of patent law, and the high regard in which Congress and the innovation communities held the jurisprudence of the CCPA were a critical foundation for formation of the Federal Circuit and its charge to reinvigorate the role of the patent system in service to the nation's technological innovation. See 125 Cong. Rec. 23,462 (1979) (statement of Sen. DeConcini) ("It is a reflection of high esteem which Congress has for the sitting judges of the Court of Claims and Court of Customs and Patent Appeals that these judges will become the first judges of the new Court of the Federal Circuit.").

product-by-process claims are anticipated when the product existed in the prior art, even if the product was made by a different process. My colleagues are mistaken in stating that Thorpe held that all such claims are to be construed as process claims, even when the product is new and the rule of necessity justifies this mode of describing the invention. In Thorpe the product was not new; it was a known color developer for carbonless paper copy systems, and this court held that the PTO correctly rejected the claim to “the product of the process of claim 1,” explaining that since the product was old it could not be claimed as a product, whether or not process steps are recited in the claim.

The facts of Thorpe did not concern the exception and expedient where process terms are invoked to describe a new product of complex structure. This exception is rarely invoked. The general rule requiring claims to have a process-free definition of the structure of a new product accommodates most inventions. Some recent exceptions are seen in emerging aspects of biotechnology. For example, in Amgen, Inc. v. Chugai Pharmaceuticals Co., 706 F. Supp. 94 (D. Mass. 1989), aff'd in relevant part, 927 F.2d 1200 (Fed. Cir. 1991), the district court considered the following claim:

4. A procaryotic or eucaryotic host cell transformed or transfected with a DNA sequence according to claim 1, 2 or 3 in a manner allowing the host cell to express erythropoietin.

Id. at 108. The district court found claim 4 “ambiguous,” explaining that while it is directed to a new product—this host cell—the words “transformed or transfected” appear to invoke a process. The district court recognized that “[i]n the traditional patent framework, a product is wholly separate and distinct from a process.” Id. at 107. The court observed that “[a] product patent gives the patentee the right to restrict the use

and sale of the product regardless of how and by whom it was manufactured,” while “[a] process patentee’s power extends only to those products made by the patented process.” Id. (quoting United States v. Studiengesellschaft Kohle, 670 F.2d 1122, 1127-28 (D.C. Cir. 1981)). The district court, affirmed by the Federal Circuit, found this claim to be valid and infringed as a product claim, and although many issues and arguments were present in this litigation, the applicability of the venerable rule of necessity was not at issue.

In Scripps Clinic & Research Foundation v. Genentech, Inc., 927 F.2d 1565 (Fed. Cir. 1991), the Federal Circuit addressed the interpretation and scope of claims exemplified by claim 13:

13. Highly purified and concentrated VIII:C prepared in accordance with the method of claim 1.

Claim 1 set forth the method referred to in claim 13, as follows:

1. An improved method of preparing Factor VIII procoagulant activity protein [VIII:C] comprising the steps of
 - (a) adsorbing a VIII:C/VIII:RP complex from a plasma or commercial concentrate source onto particles bound to a monoclonal antibody specific to VIII:RP,
 - (b) eluting the VIII:C,
 - (c) adsorbing the VIII:C obtained in step (b) in another adsorption to concentrate and further purify same,
 - (d) eluting the adsorbed VIII:C, and
 - (e) recovering highly purified and concentrated VIII:C.

It was not disputed that the product was a new product, that the “highly purified and concentrated” blood clotting Factor VIII:C had not previously been obtained, and that a complete structural identification of Factor VIII:C was not available. The defendant Genentech had made its commercial Factor VIII:C not by the method set forth in claim 1, but by using a sample of the Scripps product to “clone” Factor VIII:C protein using

recombinant DNA techniques. One question presented in the case was whether claims such as claim 13 were infringed by the same product produced by a different method, or whether such claims were infringed only if the accused infringer used the process of claim 1.

Scripps stressed that its product was novel and enabled and was patentable as a product, although the full structure of Factor VIII:C was not available at that stage of the science. The court addressed whether claims exemplified by claim 13, properly construed, were product claims, or whether they were limited to the specific processes in the process claims to which they referred. This court held that the claims were product claims. The court held that since claims are construed the same way for infringement as for validity, the question was whether the Genentech product was the same as the claimed product, not whether they were produced by the same process. The court remanded to the district court for this factual determination. Scripps, 927 F.2d at 1584.

After Scripps was decided, a panel of this court decided an appeal concerning plastic innersoles for shoes. In Atlantic Thermoplastics Co. v. Faytex Corp., 970 F.2d 834 (Fed. Cir. 1992), the claims at issue were represented by:

Claim 24. The product produced by the method of claim 1.

In turn, claim 1 was as follows:

1. In a method of manufacturing a shock-absorbing, molded innersole for insertion in footwear, which method comprises:

(a) introducing an expandable, polyurethane into a mold; and
(b) recovering from the mold an innersole which comprises a contoured heel and arch section composed of a substantially open-celled polyurethane foam material, the improvement which comprises:

(i) placing an elastomeric insert material into the mold, the insert material having greater shock-absorbing properties and being

less resilient than the molded, open-celled polyurethane foam material, and the insert material having sufficient surface tack to remain in the placed position in the mold on the introduction of the expandable polyurethane material so as to permit the expandable polyurethane material to expand about the insert material without displacement of the insert material; and

(ii) recovering a molded innersole with the insert material having a tacky surface forming a part of the exposed bottom surface of the recovered innersole.

The panel held that a claim in the form of claim 24 always requires use of the referenced method, and that it is irrelevant whether the product was new or known. The court stated that the rule of necessity, as applied in Scripps, is contrary to Supreme Court rulings. The panel stated that the decision in Scripps is incorrect. A majority of the Federal Circuit declined to resolve the conflict en banc, resulting in several further opinions. E.g., Atlantic Thermoplastics Co. v. Faytex Corp., 974 F.2d 1279 (Fed. Cir. 1992) (dissents of Chief Judge Nies and Judges Rich, Newman, and Lourie from denial of rehearing en banc). Judge Rich wrote:

[T]his whole excursion was unnecessary because the patentee admitted that claim 24, the product-by-process claim, was limited to the process. The claim read: "The molded innersole produced by the method of claim 1." There was, therefore, no occasion to review the law to determine how the claim should be construed. . . . We are not here to provide restatements of the law. Such restatements should not be made without an opportunity for all affected parties to be heard from. The affected parties here are not the vendors of inner soles but largely the entire chemical industry, particularly the pharmaceutical manufacturers.

Id. at 1280 (Rich, J., dissenting from denial of rehearing en banc).

Most trial courts continued to recognize the rule of necessity. For example, in Trustees of Columbia University v. Roche Diagnostics GmbH, 126 F. Supp. 2d 16 (D. Mass. 2000), the district court considered claims such as the following.

72. A eukaryotic cell into which foreign DNA I has been inserted in accordance with the process of claim 54.

The court referred to the Scripps/Atlantic conflict, concluded that the earlier panel decision controlled under the Federal Circuit's rule, see Newell Companies, Inc. v. Kenney Manufacturing Co., 864 F.2d 757, 765 (Fed. Cir. 1988) ("This court has adopted the rule that prior decisions of a panel of the court are binding precedent on subsequent panels unless and until overturned in banc."), and applied the Scripps ruling, holding that the new cell was not limited by the process by which it was made.

The PTO also continued to apply the rule of necessity. In instructing examiners that products should whenever possible be described without reference to how they were made, the PTO continued to point out the exception that patentability as a product is not foreclosed when independent description is not available. The Manual of Patent Examining Procedure (MPEP) instructs the examiner to consider the structure implied by any process steps in the claim:

The structure implied by the process steps should be considered when assessing the patentability of product-by-process claims over the prior art, especially where the product can only be defined by the process steps by which the product is made, or where the manufacturing process steps would be expected to impart distinctive structural characteristics to the final product.

MPEP §2113 (8th ed., July 2008 rev.). This has been the practice since at least Ex parte Painter in 1891. I am surprised at the en banc court's casual misstatement about "the treatment of product-by-process claims throughout the years by the PTO," maj. op. at 17, for the statement is directly contrary to the treatment of such claims throughout the years by the PTO.

The en banc court's insistence that one universal rule should now be applied is contrary to the entire body of decisional law, including the Supreme Court cases cited by my colleagues. As I next discuss, in most of the cited cases the product was not a

new product and thus was not patentable as a product, whether or not any process term was included in the claim. The Court consistently held that when the product was old and only the process was a patentable invention, a claim for the “product of that process” could not cover the old product made by a different process. That is, and has always been, the law. I comment briefly on the Court’s cases that my colleagues misinterpret and misapply:

Cochrane v. BASF

The en banc opinion relies primarily on Cochrane v. Badische Anilin & Soda Fabrik, 111 U.S. 293 (1884) (“BASF”), even though my colleagues acknowledge that the product in that case was the well-known dye alizarine. The patent before the Court was a reissue patent that claimed artificial alizarine in the following way:

Artificial alizarine, produced by either of the methods herein described, or by any other method which will produce a like result.

The Court held that since alizarine was a known product, the claim was limited to the patentee’s two processes, stating:

It was an old article. While a new process for producing it was patentable, the product itself could not be patented, even though it was a product made artificially for the first time, in contradistinction from being eliminated from the madder root. Calling it artificial alizarine did not make it a new composition of matter, and patentable as such, by reason of its having been prepared, artificially, for the first time, from anthracite, if it was set forth as alizarine, a well-known substance. Wood Paper Patent, 23 Wall. 560, 593 [(1874)]. There was therefore no foundation for reissue No. 4,321, for the product, because, on the description given, no patent for the product could have been taken out originally.

111 U.S. at 311-12. The Court accordingly limited the claim to the two processes described in the patent, and in the portion of BASF quoted by my colleagues, the Court discussed the proofs needed to show infringement:

[U]nless it is shown that the process of [the specification] was followed to produce the defendants' article, or unless it is shown that the article could not be produced by any other process, the defendants' article cannot be identified as the product of the process of [the specification]. Nothing of the kind is shown.

Id. at 310. The Court did not state, or imply, despite my colleagues' contrary theory, that a claim to a new and complex product that is of necessity defined and distinguished by the process by which it was made, can never be infringed unless that specific process is practiced. There was no issue in BASF of a product that could not be defined without reference to how it was made. The BASF Court, providing guidance, remarked on the importance of independent description of a patented product, in the following sentence cited by my colleagues:

Every patent for a product or composition of matter must identify it so that it can be recognized aside from the description of the process for making it, or else nothing can be held to infringe the patent which is not made by that process.

Id. at 310. This statement is indeed the general rule, as stated by the Patent Commissioner several years later in Ex parte Painter. However, BASF did not present the situation for which the expedient of necessity was created, for as the Court stated, the invention was "a process for preparing alizarine, not as a new substance prepared for the first time, but as the substance already known as alizarine, to be prepared, however, by the new process, which process is to be the subject of the patent, and is the process of preparing the known product alizarine from anthracine." Id. at 308-09.

This was not an instance of a new product describable only in terms of its process of manufacture. The BASF decision lends no support to today's en banc rule that every product claim that mentions a process step is always restricted to that

process, with no exception, no expedient, no preservation of the distinctions among forms of claim based on the nature of the invention.

The Goodyear Dental cases

The en banc court also states that its new ruling is supported by two cases relating to a patent on the use of vulcanized rubber to form a plate for holding dentures, Smith v. Goodyear Dental Vulcanite Co., 93 U.S. (3 Otto) 486 (1876), and Goodyear Dental Vulcanite Co. v. Davis, 102 U.S. (12 Otto) 222 (1880). Review of these cases reveals no support for the en banc court's statement of their holdings. The claim at issue was:

The plate of hard rubber or vulcanite, or its equivalent, for holding artificial teeth, or teeth and gums, substantially as described.

Davis, 102 U.S. (12 Otto) at 223. The claim was written in the then-standard format of incorporating the description in the specification through the phrase “substantially as described.” This was not a product-by-process or product-of-the-process claim at all, for the claim contains no process distinction or limitation, but simply refers to the description in the specification. Nonetheless, the en banc majority appears to state that these cases mean that the Supreme Court requires that all claims for products whose method of production is set forth in the specification—as is required by the description and enablement requirement—cannot be infringed unless that method is used.

That is not what the Goodyear Dental cases said. The Court referred to the position of Goodyear Dental Vulcanite that its patent covered all dental plates made of vulcanized rubber, and held, upon reviewing the specification and the prior art, that the process of manufacture was what distinguished this dental plate from the prior art dental plates, and concluded: “The invention, then, is a product or manufacture made in a

defined manner. It is not a product alone, separated from the process by which it is created.” Smith, 93 U.S. (3 Otto) at 493. Were the claim not limited to this process, the Court concluded that the claim would not have been patentable. See id. at 492 (holding that if the patent were for a “mere substitution of vulcanite for other materials, which had previously been employed as a base for artificial sets of teeth” then it “constituted no invention”). Four years later, considering the same patent in Davis, the Court emphasized that the claim was limited to use of vulcanized rubber or its equivalent, and held that since the accused infringer made its dental plate with celluloid, there could not be infringement. See 102 U.S. (12 Otto) at 228-30.

The court today cites these cases as definitive of the interpretation of claims with process elements, although the only process referent is the phrase “substantially as described.” This flawed reasoning was disposed of in 1890 in the classic Robinson on Patents, and until now has not reappeared:

In stating Claims certain phrases are frequently employed to which a special importance seems to be attached by applicants. Among these are the phrase “substantially as described” and others of the same meaning. These phrases import the same thing when used in a Claim as when elsewhere employed. They are neither necessary nor technical. The reference they make to the Description is always implied, and relates only to the essential features of the invention as therein delineated. They add nothing, therefore, to the certainty of the Claim, nor do they detract from it unless the claimant carelessly inserts them as a substitute for a more clear and definite statement of his invention.

II W.C. Robinson, Robinson on Patents 517 (1890) (footnotes omitted).

Merrill v. Yeomans

My colleagues also rely on Merrill v. Yeomans, 94 U.S. (4 Otto) 569 (1877). Again, the relevance is remote. The Merrill Court explained that the issue was the “correct construction of plaintiff’s patent,” id. at 569, construing the following claim:

[T]he above-described new manufacture of the deodorized heavy hydrocarbon oils, suitable for lubricating and other purposes, free from the characteristic odors of hydrocarbon oils, and having a slight smell like fatty oil, from hydrocarbon oils, by treating them substantially as hereinbefore described.

Id. at 570. The Court examined the specification to determine what was invented, and found that the invention was directed solely to a process, not to a product. The Court then concluded that the claim's usage "new manufacture" referred to the manufacturing process, and not to the product. The claim was thus a process claim, and no "product-by-process" issue was presented. The Court concluded that the defendant's oil, which was made by a different process, did not infringe.

The Merrill Court discussed its practice of looking to the patent application and interpreting the claim in light of what was "really invented":

[W]here it appears that a valuable invention has really been made, this court, giving full effect to all that is found in the application on which the Patent Office acted, will uphold that which was really invented, and which comes within any fair interpretation of the patentee's assertion of claim.

Id. at 573. This approach is inimical to the en banc court's theory that it is irrelevant what the patentee describes as his invention, and that if a process step is mentioned in the claim or "substantially described" in the specification, the claim always requires performance of that step. Although the Court in Merrill was not confronted with a situation of indescribable product or necessity bred of complexity—indeed no product at all was claimed—neither did the Court hold that every product invention must be limited by the process that produced the product.

The Wood Paper Patent case

The list of Supreme Court cases relied on by my colleagues continues with The Wood Paper Patent, 90 U.S. 566, 596 (1874), where claims with the standard

“substantially as described” language were construed in two reissue patents relating to the pulping of wood to make paper. The Court explained that one reissue patent was for “a product or manufacture, and not for the process by which the product may be obtained,” and the other “for a process and not for its product.” Id. at 593. The Court examined the prior art and concluded that the claim for the product could not be sustained, because the product produced by the inventor’s new pulping process was not new:

Paper-pulp obtained from various vegetable substances was in common use before the original patent was granted to Watt & Burgess, and whatever may be said of their process for obtaining it, the product was in no sense new. The reissued patent, No. 1448, is, therefore, void for want of novelty in the manufacture patented.

Id. at 596. The Court then discussed the reissue patent for the “process and not for its product,” and held this reissue void because it claimed a different invention than in the original patent. The Court also discussed several other patents directed to boilers used to produce paper-pulp, and to a process for bleaching straw. Nothing in this case concerns the product-by-process issue on which the court is today acting.

I cannot discern why the en banc court relies on The Wood Paper Patent case as invalidating Scripps, and the court has not attempted to explain.

Plummer v. Sargent

The en banc court also relies on Plummer v. Sargent, 120 U.S. 442 (1887), which again provides no support for my colleagues’ thesis. This case again illustrates the Court’s practice of reviewing what the patentee stated he invented as set forth in the specification in light of the prior art. The claim in Plummer was for a “new manufacture,” “substantially as described”:

What I claim and desire to procure by letters patent is the new manufacture hereinabove described, consisting of iron ornamented in imitation of bronze by the application of oil and heat, substantially as described.

Id. at 445. The trial court had found non-infringement because the defendant had used a prior art process for bronzing iron. This prior process was work of F.W. Brocksieper, an employee of the defendant's predecessor company. The Supreme Court affirmed, stating that the claims were limited to the process described in the specification:

It seems necessarily to follow from this view either that the Tucker patents are void by reason of anticipation practiced by Brocksieper, or that the patented process and product must be restricted to exactly what is described

Id. at 449. The Court thus limited the claims to the process described by the patentee, not because of any rule about limiting a product to how it was made in the specification, but to sustain validity of the patent in view of the Brocksieper prior art. The decision in Plummer is unrelated to any rule of claim construction based on whether process terms are included in the claim.

These nineteenth-century cases do not relate to the en banc court's new universal rule of claim construction, whereby all product claims having process terms are treated as process claims, whatever the nature of the product, whatever the need for process descriptors, or any other factor that precedent shows to be relevant to the exception that is here at issue as to the use of and construction of such claims. Nor do any more recent Court cases.

General Electric v. Wabash

My colleagues also cite General Electric Co. v. Wabash Appliance Corp., 304 U.S. 364 (1938), although the relevance of this case is, again, not apparent, for it

involved no product-by-process claims, but rather claims that recite the properties of the product. A typical claim is claim 25, which describes an electric lamp filament composed of tungsten grains of a size and shape that prevents sagging of the filament:

25. A filament for electric incandescent lamps or other devices, composed substantially of tungsten and made up mainly of a number of comparatively large grains of such size and contour as to prevent substantial sagging and offsetting during a normal or commercially useful life for such a lamp or other device.

Id. at 368. The Court held this claim “invalid on its face” for failing to provide a “distinct and definite statement of what he claims to be new, and to be his invention.” Id. at 369. The Court stated that the description of the grains as “of such size and contour as to prevent substantial sagging and offsetting” was “inadequate as a description of the structural characteristics of the grains.” Id. at 370. The Court also criticized the use of functional language in the claim, stating that such terms were too indefinite to provide clear guidance. Id. at 371. There was no issue of whether process steps in the claims were regarded as limiting, for there were no process steps in the claims. Instead, the Court stated that even the implicit inclusion of process steps could not save the claim, because the description of the process in the specification was inadequate:

Even assuming that definiteness may be imparted to the product claim by that part of the specification which purportedly details only a method of making the product, the description of the Pacz process is likewise silent as to the nature of the filament product.

Id. at 373. The Court held the patent invalid for lack of a “distinct and definite” description of the invention, for the court “doubted whether one who discovers or invents a product he knows to be new will ever find it impossible to describe some aspect of its novelty.” Id. Whatever the inadequacies in the Pacz description of his invention, the Court’s optimistic view of scientific capability cannot be deemed to have

barred all recourse to the rule of necessity when it is warranted, or to have voided the ensuing seventy-one years of Patent Office and judicial recognition of this pragmatic expedient.

No Supreme Court case discussed the problems of complexity and structural analysis that warrant this expedient, or created a legal solution to these problems. It is inappropriate, unsupported by law or precedent, and contrary to the purposes of patent systems, for this court now to rule that such products cannot be patented as products.

Regional circuit decisions

My colleagues also rely on some decisions of the regional circuits preceding this court's formation, announcing that "our sister circuits also followed the general rule that the defining process terms limit product-by-process claims," and citing two cases, one decided in 1915 and one in 1977. These cases do not support the en banc court's opinion,⁴ and raised no issue of an expedient based on necessity.

⁴ It is curious to observe this en banc court extolling decisions of the regional circuits as authoritative, while it disregards the decisions of our predecessor courts and of this court. This court was created to remove patent law questions from the regional circuit courts. See H.R. Rep. 96-1300, at 20 (1980) ("Directing patent appeals to the new court will have the beneficial effect of removing these unusually complex, technically difficult, and time-consuming cases from the dockets of the regional courts of appeals. . . . [T]he central purpose is to reduce the widespread lack of uniformity and uncertainty of legal doctrine that exist in the administration of patent law."); see also Federal Courts Improvement Act of 1979: Hearings Before the Subcomm. on Improvements in Judicial Machinery of the Comm. on the Judiciary, U.S. Senate, 96th Cong. 197 (1979) (statement of Hon. Henry J. Friendly) ("What is needed is a group of judges, some but not all patent lawyers, with scientific training and interest, aided both by law clerks of similar bent and by a staff of experts in a variety of technologies, such as the Court of Customs and Patent Appeals has had for years and the courts of appeals in the very nature of things, cannot . . ."). To cite two regional circuit decisions, while jettisoning the precedents of the court uniquely qualified to address patent questions and selected to supplant the regional circuits, is puzzling.

In Hide-lte Leather Co. v. Fiber Products Co., 226 F. 34 (1st Cir. 1915), the appeal was of two process claims for making leatherboard, and a product claim for leatherboard “made from pulp” and reciting the second step in the process claims plus the reference “substantially as described.” The accused infringer did not use the same first step of the process. The court found that the invention was for a process, not a product, and therefore that the product claim was not infringed.

My colleagues also cite Paeco, Inc. v. Applied Moldings, Inc., 562 F.2d 870, 876 (3d Cir. 1977), in which the court used the specification to resolve an ambiguity in the language of a product claim relating to “replica wooden beams” made of foamed urethane. The court reviewed whether ambiguous claim language required a closed or open mold, for this determined the question of anticipation based on a prior art reference that used an open mold. Thus the court stated that the manufacturing process described in the specification was “of paramount importance,” and construed the claim in light of that process as requiring a closed mold, thus preserving the claim’s validity as against the prior art that used an open mold. The sentence quoted by my colleagues out of its context, does not relate to the en banc court’s new rule concerning process terms in product claims, and the Paeco case raised no question of whether the product was capable of description apart from the process.

In addition to these two cases inaptly cited by the en banc court, other regional circuit decisions also contradict this court’s new thesis. In Dunn Wire-Cut Lug Brick Co. v. Toronto Fire Clay Co., 259 F. 258 (6th Cir. 1919), the court stated: “Certain it is, in view of the weight of authority and the latest decisions, that the inventor of a new and

useful product or article of manufacture may have a patent which covers it and gives a monopoly upon it regardless of great variations in the method of making.” Id. at 261.

In Buono v. Yankee Maid Dress Corp., 77 F.2d 274 (2d Cir. 1935) (L. Hand, J.), the court held invalid a product claim for a kind of “blind stitch” used in sewing, because the invention lay only in the process of producing the stitch, which itself “was not new.” Id. at 279. While the stitch had not been claimed as the product of a particular machine or process, the court remarked on the conceivability of patenting such a product “merely as the product of a machine or process, even though it were anticipated if made in other ways,” id., observing that such a claim might serve a useful purpose in protecting against products that were produced by the same machine or process abroad and then imported. Of such a claim, wherein the product itself was anticipated but the process was new, the court stated “it would in that case not be infringed by anything but the product of the . . . process.” Id. This routine statement of established law does not mean that when the product is itself new and useful and unobvious, it cannot be claimed as a product but must be tied to the machine that made it.

Judge Hand emphasized that this example related only to situations where the product itself was not new. The opinion explained that to be claimed as a product, the product “must be new as such, that is, regardless of the process or machine which makes it; and it must stand upon its own invention, again independently of the machine or process which makes it.” Id. This was also the CCPA’s view of product claims, providing the precedent carried forward to, and binding upon the Federal Circuit.⁵

⁵ There has been extensive commentary on this class of claim. See, e.g., Jon S. Saxe & Julian S. Levitt, Product-by-Process Claims and Their Current Status in Chemical Patent Office Practice, 42 J. Pat. Off. Soc’y 528, 559 (1960) (“Except in the

III

THE EN BANC RULING

Defying precedent, the en banc court adopts for all situations “the basic rule that the process terms limit product-by-process claims,” maj. op. at 17, whether the product is novel or known, and whether or not the new product could not have been fully described by its structure alone. The court eliminates the long-accepted expedient for new products whose structure is not fully known. While the Scripps decision is the only decision that is mentioned as “expressly overruled,” maj. op. at 17, Scripps is only one of many cases now discarded.

The en banc majority’s response to the dissenters is to state that “the inventor is absolutely free to use process steps to define this product” if its “structure is either not fully known or too complex to analyze,” maj. op. at 19, but to eliminate the premise that the inventor thereby obtains a product claim, not a process claim. According to the majority, a patentee can continue to obtain product claims using process descriptors, but such product claims are treated as process claims for infringement. The applicant would still have to demonstrate patentability of the new product as a product (independent of the process), while enforcement of the patent against an identical product would be limited to the infringer’s use of the process steps used as a descriptor. For the first time, claims are construed differently for validity and for infringement.

chemical arts, a claim to a product must be in terms of the product’s objective physical and chemical characteristics; but where these are unknown or impossible to express, a claim may define a product in terms of the process by which it is made. This product-by-process exception is to be distinguished from the use of process terminology as descriptive of a state of being.”); Brian S. Tomko, Scripps or Atlantic: The Federal Circuit Squares Off Over the Scope of Product-by-Process Patents, 60 Brook. L. Rev. 1693, 1696 (1995) (the Atlantic decision “pared the scope of a product-by-process patent to that of a glorified process patent”).

It has been an inviolate rule that patent claims are construed the same way for validity and for infringement. See, e.g., Amgen Inc. v. Hoechst Marion Roussel, Inc., 324 F.3d 1313, 1330 (Fed. Cir. 2003) (“It is axiomatic that claims are construed the same way for both invalidity and infringement.”); Amazon.com, Inc. v. Barnesandnoble.com, Inc., 239 F.3d 1343, 1351 (Fed. Cir. 2001) (“Because the claims of a patent measure the invention at issue, the claims must be interpreted and given the same meaning for purposes of both validity and infringement analyses.”); C.R. Bard, Inc. v. M3 Systems, Inc., 157 F.3d 1340, 1363 (Fed. Cir. 1998) (“Claims must be interpreted the same way for determining infringement as was done to sustain their validity.”); Southwall Technologies, Inc. v. Cardinal IG Co., 54 F.3d 1570, 1576 (Fed. Cir. 1995) (“Claims may not be construed one way in order to obtain their allowance and in a different way against accused infringers.”); Beachcombers, International, Inc. v. WildeWood Creative Products, Inc., 31 F.3d 1154, 1163 (Fed. Cir. 1994) (“We have already interpreted the claims for purposes of assessing their validity. The same claim interpretation of course applies to the infringement analysis.”); Scripps Clinic & Research Foundation v. Genentech, Inc., 927 F.2d 1565, 1583 (Fed. Cir. 1991) (“claims must be construed the same way for validity and for infringement”); Smithkline Diagnostics, Inc. v. Helena Laboratories Corp., 859 F.2d 878, 882 (Fed. Cir. 1988) (“The claims of the '970 patent measure the invention at issue; thus, the claims must be interpreted and given the same meaning for purposes of both validity and infringement analyses.”); see also 5A Chisum on Patents §18.01 (2007) (“A fundamental tenet of patent law is that a claim must be interpreted consistently for purposes of infringement and validity.”); id. §18.03[2][h] (collecting cases).

As interpreted for validity, the claims obtained under the expedient of necessity are product claims, and are subject to the requirements of novelty, unobviousness, and all other requirements for new products, independent of how the products can be made. My colleagues hold that these are product claims for validity, but process claims for infringement. Departure from the rule that forbids such deviation requires sound reason, and fuller exploration than the cursory brush-off dispensed by my colleagues.

I do agree with my colleagues that their logic is “simple.” Maj. op. at 19. However, today’s inventions are not simple. The needs of inventions of the past and present, and more so the future, are not simple. The public interest in invention and development of today’s complex sciences, is not simple. The en banc court’s “simple” hypothetical about “compound X, obtained by process Y,” is simply irrelevant to the issues we must resolve. Scientists know that it is often easier to show that two products are the same, than to decipher their chemical or biological structure; for example, in the case at bar, comparing the X-ray diffraction patterns and absorption spectra could show that the products are the same, although their exact crystal structure is undefined. However, my colleagues announce that the only way to establish whether the accused compound is the same as the patented compound is by inquiring whether they were prepared by the same method. Maj. op. at 19-20 (“[W]hat analytical tools can confirm that the alleged infringer’s compound is in fact infringing, other than a comparison of the claimed and accused infringing processes?”). That question has many answers, now stated to be irrelevant.

While the section of this opinion decided by the en banc court is largely directed to its reversal of precedent, the implementation of its ruling remains with the original

panel. The panel decision enlarges the en banc ruling, further binding this court. The claims at issue state processes by which the new crystal form is “obtainable,” although the specification states that other methods might be used. The panel rules that a claim “cannot capture a product obtained by or obtainable by processes other than those explicitly recited in the claims.” maj. op. at 21, finding authority in BASF, which I have discussed ante. My colleagues thus continue to misapply the Court’s ruling in BASF, where the Court stated repeatedly that the product in that case was a known product. BASF, 111 U.S. at 311 (“It was an old article.”). In BASF the Court responded to the patentee’s argument that it was entitled to cover all artificial alizarine made by any process, by observing that the patentee had not shown how the infringing and patented products “can be recognized,” id. at 310, an aspect at the opposite pole from the case at bar, where the patentee provided elaborate details as to how the patented and accused crystal forms can be recognized.

The panel also states that “the applicant’s statement in the file wrapper that ‘the method of preparation . . . is not considered the heart of the present invention’ should not be afforded undue gravitas.” Maj. op. at 22. This too is an aberration of precedent, and is contrary to the many rulings of the Supreme Court and this court that afford due gravitas to the applicant’s statement of what has been invented. See, e.g., BASF, 111 U.S. at 308 (“It is very plain that the specification of the original patent, No. 95,465, states the invention to be a process for preparing alizarine, not as a new substance prepared for the first time, but as the substance already known as alizarine, to be prepared, however, by the new process, which process is to be the subject of the patent”); Plummer v. Sargent, 120 U.S. at 443 (quoting specification of companion

patent, where inventor stated “My invention consists in a process of covering iron with a very thin coating of oil, and then subjecting it to heat, the effect of which is to leave upon the iron a firm film, which is very durable, and gives the iron a highly ornamental appearance, like that of bronze”). The Federal Circuit’s emphasis on the importance of the specification has been repeatedly stated. E.g., Phillips v. AWH Corp., 415 F.3d 1303, 1315 (Fed. Cir. 2005) (en banc) (“[T]he specification is always highly relevant to the claim construction analysis. Usually, it is dispositive; it is the single best guide to the meaning of a disputed term.” (internal quotation marks omitted)).

The en banc court appears to misjudge the implications of its ruling, for the court states that it is now making available to “others the right to freely practice process Z [a different process] that may produce a better product in a better way.” Maj. op. at 20. If others can indeed make a better product, this expedient presents no impediment. That is not the issue of this case. The issue is the right to make the same product, by making a process change that does not change the product. By now assuring that right, the exclusionary value of the claim to a new product is lost.

The purpose of the rule of necessity is to allow inventors of complex new products to obtain the patent scope to which their invention is entitled—the scope of the novel product they invented, no more and no less. The majority’s change of law simply imposes unfairness as well as legal error on patent-supported advances.

SUMMARY

Precedent establishes that the correct construction of claims that recite process steps depends, like all claim construction, on what has been invented. No single rule fits all inventions. The construer must view the claims in light of the description of the

invention in the specification, the prior art, and the prosecution history. In the complex law and practice of patents and inventions, the special expedient here of concern arises when the precise structure of a new product is not known from the information available when the patent application was filed. The law has enabled and endorsed this expedient of describing a product in order to claim it as a product, whereby validity and infringement are determined as a product, independent of any process term that was used to aid in defining the product. This expedient does not enlarge patent scope; it simply permits patenting what has been invented. A narrow but clear body of law has evolved to accommodate this need of complex technologies. This entire body of law is today overturned, sua sponte and without a hearing, without any participation of those affected, without identification of the intended benefits. I respectfully dissent from the en banc court's rulings, as well as the procedure by which they were reached.

United States Court of Appeals for the Federal Circuit

2007-1400

ABBOTT LABORATORIES,

Plaintiff-Appellant,

and

ASTELLAS PHARMA, INC.,

Plaintiff-Appellant,

v.

SANDOZ, INC.,

Defendant-Appellee,

and

SANDOZ GMBH,

Defendant,

and

TEVA PHARMACEUTICALS USA, INC. and
TEVA PHARMACEUTICAL INDUSTRIES, LTD.,

Defendants-Appellees,

and

RANBAXY LABORATORIES, LTD. and RANBAXY, INC.,

Defendants,

and

PAR PHARMACEUTICAL COMPANIES, INC. and PAR PHARMACEUTICAL,

Defendants.

2007-1446

LUPIN LIMITED,

Plaintiff/Counterclaim Defendant-
Appellee,

and

LUPIN PHARMACEUTICALS, INC.,

Counterclaim Defendant-
Appellee,

v.

ABBOTT LABORATORIES,

Defendant/Counterclaimant-
Appellant,

and

ASTELLAS PHARMA, INC.,

Defendant/Counterclaimant-
Appellant.

Appeals from the United States District Court for the Northern District of Illinois in case no. 07-CV-1721, Judge Wayne R. Andersen and the United States District Court for the Eastern District of Virginia in case no 3:06-CV-400, Judge Robert E. Payne.

LOURIE, Circuit Judge, dissenting from en banc Section III. A. 2.

I respectfully dissent from the court's en banc holding in Section III. A. 2 that product-by-process claims always require use of the recited process in order to be infringed.

I agree that there is substantial Supreme Court precedent that holds that product-by-process claims require use of the recited process for there to be infringement. However, many of those cases applied overly broad language to fact situations involving old products or used vague language that makes it difficult to determine

whether the products were old or new. Clearly, however, when a product is old, a product-by-process claim cannot be interpreted as a claim to the product made by any means. The product is old and unpatentable per se. BASF in fact involved an old product. See *Cochrane v. Badische Anilin & Soda Fabrik*, 111 U.S. 293, 311 (1884) (“It was an old article.”).

There is arguably a different situation that should apply to chemical-biological products today than to mechanical products of more than a century ago. When a product is new and the inventor claims it by a process of preparation, I fail to see why the product-by-process claim should not be interpreted as a product claim that can be infringed even when the product is made by means other than that recited in the claim. Supreme Court precedent dealing with old products, while utilizing broad language, does not foreclose that possibility. The Court years ago did not have occasion to consider today’s innovations or decide whether a distinction should be made between a new chemical-biological product and an old product made by a new process.

And there may be differing results depending upon the exact wording of a claim at issue. For example, a claim reading “when made by” might only be infringed when the recited process is used by the accused, as it is situational. On the other hand, a claim reading “obtainable by” refers to capability, so it might not require use of the process to infringe. “Obtained by” is ambiguous. Bright lines have their uses, but judging should take account of differing circumstances. In addition, of course, in order to sustain any claim for infringement, a patent owner must prove that an accused product is the same as that covered by an asserted claim. If the reason a product was claimed by its process was that its structure was unknown, then, if, at the time

infringement is asserted, there still is no means to ascertain structurally whether the accused product is the same as that claimed, the infringement claim fails. However, that should not mean that a new product claimed by a process of preparation cannot ever be infringed when made by another process.

It may be that with today's analytical techniques there is little need for product-by-process claims. After all, claim 1 of the Abbott patent is a claim to a compound, not only by name, but also by certain of its characteristics. A claim to a product defined by its characteristics or properties surely is a proper claim.

However, product-by-process issues still seem to come before us and I would make a distinction between old products and new products in interpreting product-by-process claims. Accordingly, I respectfully dissent from the court's en banc holding.

United States Court of Appeals for the Federal Circuit

2008-1248

ARIAD PHARMACEUTICALS, INC.,
MASSACHUSETTS INSTITUTE OF TECHNOLOGY,
THE WHITEHEAD INSTITUTE FOR BIOMEDICAL RESEARCH,
and THE PRESIDENT AND FELLOWS OF HARVARD COLLEGE,

Plaintiffs-Appellees,

v.

ELI LILLY AND COMPANY,

Defendant-Appellant.

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Appealed from: United States District Court for the District of Massachusetts

Judge Rya W. Zobel

United States Court of Appeals for the Federal Circuit

2008-1248

ARIAD PHARMACEUTICALS, INC.,
MASSACHUSETTS INSTITUTE OF TECHNOLOGY,
THE WHITEHEAD INSTITUTE FOR BIOMEDICAL RESEARCH,
and THE PRESIDENT AND FELLOWS OF HARVARD COLLEGE,

Plaintiffs-Appellees,

v.

ELI LILLY AND COMPANY,

Defendant-Appellant.

Appeal from the United States District Court for the District of
Massachusetts in Case No. 02-CV-11280, Judge Rya W. Zobel.

DECIDED: March 22, 2010

Before MICHEL, Chief Judge, NEWMAN, MAYER, LOURIE, RADER, BRYSON,
GAJARSA, LINN, DYK, PROST, and MOORE, Circuit Judges.

Opinion for the court filed by Circuit Judge LOURIE, in which Chief Judge MICHEL and
Circuit Judges NEWMAN, MAYER, BRYSON, GAJARSA, DYK, PROST, and MOORE
join. Additional views filed by Circuit Judge NEWMAN. Concurring opinion filed by
Circuit Judge GAJARSA. Dissenting-in-part, concurring-in-part opinion filed by Circuit
Judge RADER, in which Circuit Judge LINN joins. Dissenting-in-part, concurring-in-part
opinion filed by Circuit Judge LINN, in which Circuit Judge RADER joins.

LOURIE, Circuit Judge.

Ariad Pharmaceuticals, Inc., Massachusetts Institute of Technology, the
Whitehead Institute for Biomedical Research, and the President and Fellows of Harvard

College (collectively, "Ariad") brought suit against Eli Lilly & Company ("Lilly") in the United States District Court for the District of Massachusetts, alleging infringement of U.S. Patent 6,410,516 ("the '516 patent"). After trial, at which a jury found infringement, but found none of the asserted claims invalid, a panel of this court reversed the district court's denial of Lilly's motion for judgment as a matter of law ("JMOL") and held the asserted claims invalid for lack of written description. Ariad Pharms., Inc. v. Eli Lilly & Co., 560 F.3d 1366 (Fed. Cir. 2009).

Ariad petitioned for rehearing en banc, challenging this court's interpretation of 35 U.S.C. § 112, first paragraph, as containing a separate written description requirement. Because of the importance of the issue, we granted Ariad's petition and directed the parties to address whether § 112, first paragraph, contains a written description requirement separate from the enablement requirement and, if so, the scope and purpose of that requirement. We now reaffirm that § 112, first paragraph, contains a written description requirement separate from enablement, and we again reverse the district court's denial of JMOL and hold the asserted claims of the '516 patent invalid for failure to meet the statutory written description requirement.

BACKGROUND

The '516 patent relates to the regulation of gene expression by the transcription factor NF- κ B. The inventors of the '516 patent were the first to identify NF- κ B and to uncover the mechanism by which NF- κ B activates gene expression underlying the body's immune responses to infection. The inventors discovered that NF- κ B normally exists in cells as an inactive complex with a protein inhibitor, named "I κ B" ("Inhibitor of kappa B"), and is activated by extracellular stimuli, such as bacterial-produced

lipopolysaccharides, through a series of biochemical reactions that release it from I κ B. Once free of its inhibitor, NF- κ B travels into the cell nucleus where it binds to and activates the transcription of genes containing a NF- κ B recognition site. The activated genes (e.g., certain cytokines), in turn help the body to counteract the extracellular assault. The production of cytokines can, however, be harmful in excess. Thus the inventors recognized that artificially interfering with NF- κ B activity could reduce the harmful symptoms of certain diseases, and they filed a patent application on April 21, 1989, disclosing their discoveries and claiming methods for regulating cellular responses to external stimuli by reducing NF- κ B activity in a cell.

Ariad brought suit against Lilly on June 25, 2002, the day the '516 patent issued. Ariad alleged infringement of claims 80, 95, 144, and 145 by Lilly's Evista® and Xigris® pharmaceutical products. The asserted claims, rewritten to include the claims from which they depend, are as follows:

80. [A method for modifying effects of external influences on a eukaryotic cell, which external influences induce NF- κ B-mediated intracellular signaling, the method comprising altering NF- κ B activity in the cells such that NF- κ B-mediated effects of external influences are modified, wherein NF- κ B activity in the cell is reduced] wherein reducing NF- κ B activity comprises reducing binding of NF- κ B to NF- κ B recognition sites on genes which are transcriptionally regulated by NF- κ B.

95. [A method for reducing, in eukaryotic cells, the level of expression of genes which are activated by extracellular influences which induce NF- κ B-mediated intracellular signaling, the method comprising reducing NF- κ B activity in the cells such that expression of said genes is reduced], carried out on human cells.

144. [A method for reducing bacterial lipopolysaccharide-induced expression of cytokines in mammalian cells, which method comprises reducing NF- κ B activity in the cells so as to reduce bacterial lipopolysaccharide-induced expression of said cytokines in the cells] wherein reducing NF- κ B activity comprises reducing binding of NF- κ B to

NF- κ B recognition sites on genes which are transcriptionally regulated by NF- κ B.

145. [A method for reducing bacterial lipopolysaccharide-induced expression of cytokines in mammalian cells, which method comprises reducing NF- κ B activity in the cells so as to reduce bacterial lipopolysaccharide-induced expression of said cytokines in the cells], carried out on human cells.

The claims are thus genus claims, encompassing the use of all substances that achieve the desired result of reducing the binding of NF- κ B to NF- κ B recognition sites. Furthermore, the claims, although amended during prosecution, use language that corresponds to language present in the priority application. Specifically, the asserted claims recite methods of reducing NF- κ B activity, and more specifically reducing binding of NF- κ B to NF- κ B recognition sites, in cells in response to external influences like bacterial lipopolysaccharides. The specification filed on April 21, 1989, similarly recites the desired goal of reducing NF- κ B activity and binding to NF- κ B recognition sites in cells in response to such external influences. See '516 patent col.3 l.59–col.4 l.19; col.31 l.65–col.32 l.11; see also id. at col.2 ll.54-59. The specification also hypothesizes three types of molecules with the potential to reduce NF- κ B activity in cells: decoy, dominantly interfering, and specific inhibitor molecules. Id. at col.37 l.43–col.38 l.22.

In April 2006, the district court held a fourteen-day jury trial on the issues of infringement and validity. The jury rendered a special verdict finding infringement of claims 80 and 95 with respect to Evista® and claims 144 and 145 with respect to Xigris®. The jury also found that the asserted claims were not invalid for anticipation, lack of enablement, or lack of written description. The court denied without opinion Lilly's motions for JMOL and, in the alternative, a new trial. In August 2006, the court conducted a four-day bench trial on Lilly's additional defenses of unpatentable subject

matter, inequitable conduct, and prosecution laches, ruling in favor of Ariad on all three issues. Ariad Pharms., Inc. v. Eli Lilly & Co., 529 F. Supp. 2d 106 (D. Mass 2007).

Lilly timely appealed to this court, and on April 3, 2009, a panel affirmed in part and reversed in part. Ariad, 560 F.3d at 1369. The panel upheld the district court's finding of no inequitable conduct, id. at 1380, but reversed the jury's verdict on written description, holding the asserted claims invalid for lack of an adequate written description as required by 35 U.S.C. § 112, first paragraph, id. at 1376. Ariad petitioned for rehearing en banc, challenging the existence of a written description requirement in § 112, first paragraph, separate from the enablement requirement. Although not a new question, see In re Barker, 559 F.2d 588, 591-93 (CCPA 1977), its prominence has increased in recent years, see LizardTech, Inc. v. Earth Res. Mapping, Inc., 433 F.3d 1373 (Fed. Cir. 2005) (denying rehearing en banc on the question whether a separate written description requirement exists in § 112, first paragraph); Univ. of Rochester v. G.D. Searle & Co., Inc., 375 F.3d 1303 (Fed. Cir. 2004) (same); Enzo Biochem, Inc. v. Gen-Probe Inc., 323 F.3d 956, 970 (Fed. Cir. 2002) (same). In light of the controversy concerning the distinctness and proper role of the written description requirement, we granted Ariad's petition, vacating the prior panel opinion and directing the parties to brief two questions:

(1) Whether 35 U.S.C. §112, paragraph 1, contains a written description requirement separate from an enablement requirement?

(2) If a separate written description requirement is set forth in the statute, what is the scope and purpose of that requirement?

In addition to the parties' briefs, the court received twenty-five amicus briefs. Of those, seventeen were filed in support of Lilly, one was filed in support of Ariad, and seven were filed in support of neither party. The majority, including a brief filed by the United States, were filed in support of this court's current written description doctrine. The court heard oral arguments on December 7, 2009.

DISCUSSION

I.

Although the parties differ in their answers to the court's questions, their positions converge more than they first appear. Ariad, in answering the court's first question, argues that § 112, first paragraph, does not contain a written description requirement separate from enablement. Yet, in response to this court's second question on the scope and purpose of a written description requirement, Ariad argues that the statute contains two description requirements: "Properly interpreted, the statute requires the specification to describe (i) what the invention is, and (ii) how to make and use it." Appellee Br. 1; see also id. at 43 ("[T]he written description requirement of § 112, ¶ 1 requires, first, that the specification describe (identify) what the invention is and, second, that the specification teach how to make and use the invention."). Ariad reconciles this apparent contradiction by arguing that the legal sufficiency of its two-prong description requirement is judged by whether it enables one of skill in the art to make and use the claimed invention. Thus, according to Ariad, in order to enable the invention, the specification must first identify "what the invention is, for otherwise it fails to inform a person of skill in the art what to make and use." Id. at 30. Yet Ariad argues that this first step of "identifying" the invention applies only in the context of priority (i.e., claims

amended during prosecution; priority under 35 U.S.C. §§ 119, 120; and interferences) because original claims “constitute their own description.” *Id.* at 44.

Lilly, in contrast, answers the court’s first question in the affirmative, arguing that two hundred years of precedent support the existence of a statutory written description requirement separate from enablement. Thus, Lilly argues that the statute requires, first, a written description of the invention and, second, a written description of how to make and use the invention so as to enable one of skill in the art to make and use it. Finally, Lilly asserts that this separate written description requirement applies to all claims—both original and amended—to ensure that inventors have actually invented the subject matter claimed.

Thus, although the parties take diametrically opposed positions on the existence of a written description requirement separate from enablement, both agree that the specification must contain a written description of the invention to establish what the invention is. The dispute, therefore, centers on the standard to be applied and whether it applies to original claim language.

A.

As in any case involving statutory interpretation, we begin with the language of the statute itself. Consumer Prod. Safety Comm’n v. GTE Sylvania, Inc., 447 U.S. 102, 108 (1980). Section 112, first paragraph, 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.

According to Ariad, a plain reading of the statute reveals two components: a written description (i) of the invention, and (ii) of the manner and process of making and using it. Yet those two components, goes Ariad's argument, must be judged by the final prepositional phrase; both written descriptions must be "in such full, clear, concise, and exact terms as to enable any person skilled in the art . . . to make and use the same." Specifically, Ariad parses the statute as follows:

The specification shall contain

[A] a written description

[i] of the invention, and

[ii] of the manner and process of making and using it,

[B] 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 . . .

Ariad argues that its interpretation best follows the rule of English grammar that prepositional phrases (here, "of the invention," "of the manner and process of making and using it," and "in such full, clear, concise, and exact terms") modify another word in the sentence (here, "written description"), and that it does not inexplicably ignore the comma after "making and using it" or sever the "description of the invention" from the requirement that it be in "full, clear, concise, and exact terms," leaving the description without a legal standard.

Ariad also argues that earlier versions of the Patent Act support its interpretation. Specifically, Ariad contends that the first Patent Act, adopted in 1790, and its immediate successor, adopted in 1793, required a written description of the invention that accomplished two purposes: (i) to distinguish the invention from the prior art, and (ii) to

enable a person skilled in the art to make and use the invention.¹ Ariad then asserts that when Congress assigned the function of defining the invention to the claims in 1836, Congress amended the written description requirement so that it served a single purpose: enablement.²

Lilly disagrees, arguing that § 112, first paragraph, contains three separate requirements. Specifically, Lilly parses the statute as follows:

- (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 which it pertains, or with which it is most nearly connected, to make and use the same, and”
- (3) “The specification . . . shall set forth the best mode contemplated by the inventor of carrying out the invention.”

Lilly argues that Ariad’s construction ignores a long line of judicial precedent interpreting the statute’s predecessors to contain a separate written description requirement, an

¹ Section 3 of the 1793 Patent Act provided, in relevant part: “[E]very inventor, before he can receive a patent shall . . . deliver a written description of his invention, and of the manner of using, or process of compounding the same, in such full, clear and exact terms, as to distinguish the same from all other things before known, and to enable any person skilled in the art or science, of which it is a branch, or with which it is most nearly connected, to make, compound, and use the same.”

² Section 6 of the 1836 Patent Act provided, in relevant part: “[B]efore any inventor shall receive a patent for any such new invention or discovery, he shall deliver a written description of his invention or discovery, and of the manner and process of making, constructing, using, and compounding the same, in such full, clear, and exact terms, avoiding unnecessary prolixity, as to enable any person skilled in the art or science to which it appertains, or with which it is most nearly connected, to make, construct, compound, and use the same.”

interpretation Congress adopted by reenacting the current language of § 112, first paragraph, without significant amendment.

We agree with Lilly and read the statute to give effect to its language that the specification “shall contain a written description of the invention” and hold that § 112, first paragraph, contains two separate description requirements: a “written description [i] of the invention, and [ii] of the manner and process of making and using [the invention]. 35 U.S.C. § 112, ¶ 1 (emphasis added). On this point, we do not read Ariad’s position to be in disagreement as Ariad concedes the existence of a written description requirement. See Appellee Br. 2 (“Under a plain reading of the statute, a patent specification . . . must contain a description (i) of the invention, and (ii) of the manner and process of making and using it.”). Instead Ariad contends that the written description requirement exists, not for its own sake as an independent statutory requirement, but only to identify the invention that must comply with the enablement requirement.

But, unlike Ariad, we see nothing in the statute’s language or grammar that unambiguously dictates that the adequacy of the “written description of the invention” must be determined solely by whether that description identifies the invention so as to enable one of skill in the art to make and use it. The prepositional phrase “in such full, clear, concise, and exact terms as to enable any person skilled in the art . . . to make and use the same” modifies only “the written description . . . of the manner and process of making and using [the invention],” as Lilly argues, without violating the rules of grammar. That the adequacy of the description of the manner and process of making

and using the invention is judged by whether that description enables one skilled in the art to make and use the same follows from the parallelism of the language.

While Ariad agrees there is a requirement to describe the invention, a few amici appear to suggest that the only description requirement is a requirement to describe enablement. If Congress had intended enablement to be the sole description requirement of § 112, first paragraph, the statute would have been written differently. Specifically, Congress could have written the statute to read, “The specification shall contain a written description of the invention, in such full, clear, concise, and exact terms as to enable any person skilled in the art . . . to make and use the same,” or “The specification shall contain a written description of the manner and process of making and using the invention, in such full, clear, concise, and exact terms as to enable any person skilled in the art . . . to make and use the same.” Under the amici’s construction a portion of the statute—either “and of the manner and process of making and using it” or “[a written description] of the invention”—becomes surplusage, violating the rule of statutory construction that Congress does not use unnecessary words. See United States v. Menasche, 348 U.S. 528, 538-39 (1955) (“It is our duty ‘to give effect, if possible, to every clause and word of a statute.’” (quoting Montclair v. Ramsdell, 107 U.S. 147, 152 (1883))).

Furthermore, since 1793, the Patent Act has expressly stated that an applicant must provide a written description of the invention, and after the 1836 Act added the requirement for claims, the Supreme Court applied this description requirement separate from enablement. See infra Section I.B. Congress recodified this language in the 1952 Act, and nothing in the legislative history indicates that Congress intended to

rid the Act of this requirement. On the contrary, “Congress is presumed to be aware of a[] . . . judicial interpretation of a statute and to adopt that interpretation when it re-enacts a statute without change.” Forest Grove Sch. Dist. v. T.A., 129 S. Ct. 2484, 2492 (2009) (quoting Lorillard v. Pons, 434 U.S. 575, 580 (1978)).

Finally, a separate requirement to describe one’s invention is basic to patent law. Every patent must describe an invention. It is part of the quid pro quo of a patent; one describes an invention, and, if the law’s other requirements are met, one obtains a patent. The specification must then, of course, describe how to make and use the invention (i.e., enable it), but that is a different task. A description of the claimed invention allows the United States Patent and Trademark Office (“PTO”) to examine applications effectively; courts to understand the invention, determine compliance with the statute, and to construe the claims; and the public to understand and improve upon the invention and to avoid the claimed boundaries of the patentee’s exclusive rights.

B.

Ariad argues that Supreme Court precedent comports with its reading of the statute and provides no support for a written description requirement separate from enablement. Specifically, Ariad asserts that in Evans v. Eaton, 20 U.S. (7 Wheat.) 356, 433-34 (1822), the Supreme Court recognized just two requirements under § 3 of the 1793 Act, the requirements “to enable” the invention and “to distinguish” it from all things previously known. And, goes Ariad’s argument, since the 1836 Act, which removed the latter language and added the requirement for claims, the Court has consistently held that a patent applicant need fulfill but a single “written description” requirement, the measure of which is enablement.

Lilly disagrees and reads Evans as acknowledging a written description requirement separate from enablement. Lilly further contends that the Court has continually confirmed the existence of a separate written description requirement, including in O'Reilly v. Morse, 56 U.S. (15 How.) 62 (1853) under the 1836 Act; Schriber-Schroth Co. v. Cleveland Trust Co., 305 U.S. 47 (1938), under the 1870 Act; and more recently in Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co., 535 U.S. 722, 736 (2002).

Like Lilly, we also read Supreme Court precedent as recognizing a written description requirement separate from an enablement requirement even after the introduction of claims. Specifically, in Schriber-Schroth, the Court held that a patent directed to pistons for a gas engine with “extremely rigid” webs did not adequately describe amended claims that recited flexible webs under the then-in-force version of § 112, first paragraph.³ 305 U.S. at 56-57. The Court ascribed two purposes to this portion of the statute, only the first of which involved enablement:

[1] to require the patentee to describe his invention so that others may construct and use it after the expiration of the patent and [2] to inform the public during the life of the patent of the limits of the monopoly asserted, so that it may be known which features may be safely used or manufactured without a license and which may not.

Id. at 57. The Court then concluded that even if the original specification enabled the use of a flexible web, the claim could derive no benefit from it because “that was not the

³ Section 26 of the 1870 Patent Act provided, in relevant part: “[B]efore any inventor or discoverer shall receive a patent for his invention or discovery, he shall . . . file in the patent office a written description of [his invention or discovery], and of the manner and process of making, constructing, compounding, and using it, in such full, clear, concise, and exact terms as to enable any person skilled in the art or science to which it appertains, or with which it is most nearly connected, to make, construct, compound, and use the same.”

invention which [the patentee] described by his references to an extremely rigid web.” Id. at 58-59 (emphasis added); see also Mackay Radio & Tel. Co. v. Radio Corp. of Am., 306 U.S. 86, 98-102 (1939) (holding invalid claims amended to include structures “not within the invention described in the application” even though the variations were small). Although the Court did not expressly state that it was applying a description of the invention requirement separate from enablement, that is exactly what the Court did.⁴

Further, both before and after Schriber-Schroth, the Court has stated that the statute serves a purpose other than enablement. In Gill v. Wells, 89 U.S. (22 Wall.) 1 (1874), the Court held invalid a reissue patent for claiming a combination not described in the original application, but the Court also emphasized the need for all patents to meet the “three great ends” of § 26, only one of which was enablement. Specifically, the Court stated:

(1) That the government may know what they have granted and what will become public property when the term of the monopoly expires. (2.) That licensed persons desiring to practice the invention may know, during the term, how to make, construct, and use the invention. (3.) That other inventors may know what part of the field of invention is unoccupied.

⁴ Morse, decided under the 1836 Act, can also be interpreted as involving a separate written description inquiry. 56 U.S. (15 How.) 62. The patent at issue contained eight claims, only seven of which recited the specific instrumentalities of the telegraph developed by Morse. The eighth claim, in contrast, claimed every conceivable way of printing intelligible characters at a distance by the use of an electric or galvanic current. Id. at 112. The Court rejected the latter claim as too broad because Morse claimed “an exclusive right to use a manner and process which he has not described and indeed had not invented, and therefore could not describe when he obtained his patent.” Id. at 113 (emphasis added). Such a rejection implies a distinct requirement for a description of the invention. Yet, in reaching its conclusion, the Court also detailed how the claim covered inventions not yet made, indicating the additional failure of the description to enable such a broad claim. See id. at 113-14.

Id. at 25-26. Finally, most recently in Festo, the Court recited three requirements for § 112, first paragraph, and noted a written description requirement separate from the others:

[T]he patent application must describe, enable, and set forth the best mode of carrying out the invention. These latter requirements must be satisfied before issuance of the patent, for exclusive patent rights are given in exchange for disclosing the invention to the public. What is claimed by the patent application must be the same as what is disclosed in the specification; otherwise the patent should not issue. The patent also should not issue if the other requirements of § 112 are not satisfied

535 U.S. at 736 (emphasis added) (internal citations omitted). As a subordinate federal court, we may not so easily dismiss such statements as dicta but are bound to follow them. See Stone Container Corp. v. United States, 229 F.3d 1345, 1349-50 (Fed. Cir. 2000). While Ariad points to statements in other cases that support its view, Appellee Br. 18-19, not one disavows the existence of a separate written description requirement.

A separate written description requirement also does not conflict with the function of the claims. 35 U.S.C. § 112, ¶ 2. Claims define the subject matter that, after examination, has been found to meet the statutory requirements for a patent. See In re Vamco Mach. & Tool, Inc., 752 F.2d 1564, 1577 n.5 (Fed. Cir. 1985). Their principal function, therefore, is to provide notice of the boundaries of the right to exclude and to define limits; it is not to describe the invention, although their original language contributes to the description and in certain cases satisfies it. Claims define and circumscribe, the written description discloses and teaches.

C.

In addition to the statutory language and Supreme Court precedent supporting the existence of a written description requirement separate from enablement, stare

decisis impels us to uphold it now. Ariad acknowledges that this has been the law for over forty years, see Appellee Br. 24, and to change course now would disrupt the settled expectations of the inventing community, which has relied on it in drafting and prosecuting patents, concluding licensing agreements, and rendering validity and infringement opinions. As the Supreme Court stated in admonishing this court, we “must be cautious before adopting changes that disrupt the settled expectations of the inventing community.” Festo, 535 U.S. at 739; see also Watson v. United States, 552 U.S. 74, 82 (2007) (“A difference of opinion within the Court . . . does not keep the door open for another try at statutory construction, where stare decisis has special force [since] the legislative power is implicated, and Congress remains free to alter what we have done.” (internal quotations omitted)). If the law of written description is to be changed, contrary to sound policy and the uniform holdings of this court, the settled expectations of the inventing and investing communities, and PTO practice, such a decision would require good reason and would rest with Congress.

D.

Ariad next argues that an incorrect reading of In re Ruschig, 379 F.2d 990 (CCPA 1967), by our predecessor court, the Court of Customs and Patent Appeals (“CCPA”), and then by this court, created the first written description requirement separate from enablement. Yet Ariad also asserts, in response to Lilly’s argument that In re Moore, 155 F.2d 379 (CCPA 1946); In re Sus, 306 F.2d 494 (CCPA 1962); and Jepson v. Coleman, 314 F.2d 533 (CCPA 1963), applied a separate written description requirement pre-Ruschig, that those cases “merely tested whether the specification identified the same invention that was defined by later-added or amended claims—

which is an aspect of enablement—and did not interpret § 112, ¶ 1 as containing an independent description-possession requirement.” Appellee Br. 22-23. Thus, according to Ariad, a written description of the invention is required but is not separate from enablement because it identifies the invention that must be enabled, and this, in Ariad’s view, differs from first requiring the invention to be described and then separately requiring it to be enabled.

We view this argument as a distinction without a practical difference insofar as both approaches require a written description of the invention in the specification. In either case the analysis compares the claims with the invention disclosed in the specification, and if the claimed invention does not appear in the specification, both Ariad and Lilly agree that the claim—whether in Schriber-Schroth or Ruschig—fails regardless whether one of skill in the art could make or use the claimed invention. Ruschig involved a claim amended during prosecution to recite a specific chemical compound, chlorpropamide. 379 F.2d at 991. The specification as filed disclosed a genus encompassing about “half a million possible compounds,” but it did not disclose chlorpropamide specifically. Id. at 993. The CCPA affirmed the PTO’s rejection of the compound claim because the specification provided no guides or “blaze marks” to single out chlorpropamide from all the other compounds, and thus did not support the later-added claim. Id. at 994-95. The court also rejected the argument that one of skill in the art would be enabled to make chlorpropamide as “beside the point for the question is not whether he would be so enabled but whether the specification discloses the compound to him, specifically, as something appellants actually invented,” which, the court held, it did not. Id. at 995-96.

According to Ariad, the court properly rejected Ruschig's claim based on enablement because the specification did not identify the later-claimed compound, leaving the skilled artisan with no guide to select that compound from the myriad of other compounds encompassed by the broad disclosure. According to Lilly, the court properly rejected the claim under a written description requirement separate from enablement because the specification did not disclose the later-claimed compound to one of skill in the art as something the inventors actually invented out of the myriad of other compounds encompassed by the broad disclosure. Again, this difference amounts to little more than semantics as the parties agree that the court properly affirmed the rejection because the original application did not disclose the specific claimed invention, chlorpropamide, even if one of skill in the art could, based on the disclosure with respect to related compounds, make and use it.

Ariad also argues that the court properly rejected Ruschig's claim as violating 35 U.S.C. § 132's prohibition on "new matter." But § 132 is an examiner's instruction, and unlike § 282 of the Patent Act, which makes the failure to comply with § 112 a defense to infringement, § 132 provides no statutory penalty for a breach. Express statutory invalidity defenses carry more weight than examiner's instructions, and prohibiting adding new matter to the claims has properly been held enforceable under § 112, first paragraph. See *In re Rasmussen*, 650 F.2d 1212, 1214-15 (CCPA 1981). Regardless, one can fail to meet the requirements of the statute in more than one manner, and the prohibition on new matter does not negate the need to provide a written description of one's invention.

E.

In contrast to amended claims, the parties have more divergent views on the application of a written description requirement to original claims. Ariad argues that Regents of the University of California v. Eli Lilly & Co., 119 F.3d 1559 (Fed. Cir. 1997), extended the requirement beyond its proper role of policing priority as part of enablement and transformed it into a heightened and unpredictable general disclosure requirement in place of enablement. Rather, Ariad argues, the requirement to describe what the invention is does not apply to original claims because original claims, as part of the original disclosure, constitute their own written description of the invention. Thus, according to Ariad, as long as the claim language appears in ipso verbis in the specification as filed, the applicant has satisfied the requirement to provide a written description of the invention.

Lilly responds that the written description requirement applies to all claims and requires that the specification objectively demonstrate that the applicant actually invented—was in possession of—the claimed subject matter. Lilly argues that § 112 contains no basis for applying a different standard to amended versus original claims and that applying a separate written description requirement to original claims keeps inventors from claiming beyond their inventions and thus encourages innovation in new technological areas by preserving patent protection for actual inventions.

Again we agree with Lilly. If it is correct to read § 112, first paragraph, as containing a requirement to provide a separate written description of the invention, as we hold here, Ariad provides no principled basis for restricting that requirement to establishing priority. Certainly nothing in the language of § 112 supports such a

restriction; the statute does not say “The specification shall contain a written description of the invention for purposes of determining priority.” And although the issue arises primarily in cases involving priority, Congress has not so limited the statute, and neither will we.

Furthermore, while it is true that original claims are part of the original specification, In re Gardner, 480 F.2d 879, 879 (CCPA 1973), that truism fails to address the question whether original claim language necessarily discloses the subject matter that it claims. Ariad believes so, arguing that original claims identify whatever they state, e.g., a perpetual motion machine, leaving only the question whether the applicant has enabled anyone to make and use such an invention. Oral Argument 37:26-38:00. We disagree that this is always the case. Although many original claims will satisfy the written description requirement, certain claims may not. For example, a generic claim may define the boundaries of a vast genus of chemical compounds, and yet the question may still remain whether the specification, including original claim language, demonstrates that the applicant has invented species sufficient to support a claim to a genus. The problem is especially acute with genus claims that use functional language to define the boundaries of a claimed genus. In such a case, the functional claim may simply claim a desired result, and may do so without describing species that achieve that result. But the specification must demonstrate that the applicant has made a generic invention that achieves the claimed result and do so by showing that the applicant has invented species sufficient to support a claim to the functionally-defined genus.

Recognizing this, we held in Eli Lilly that an adequate written description of a claimed genus requires more than a generic statement of an invention's boundaries. 119 F.3d at 1568. The patent at issue in Eli Lilly claimed a broad genus of cDNAs purporting to encode many different insulin molecules, and we held that its generic claim language to "vertebrate insulin cDNA" or "mammalian insulin cDNA" failed to describe the claimed genus because it did not distinguish the genus from other materials in any way except by function, i.e., by what the genes do, and thus provided "only a definition of a useful result rather than a definition of what achieves that result." Id.

We held that a sufficient description of a genus instead 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. Id. at 1568-69. We explained that an adequate written description requires a precise definition, such as by structure, formula, chemical name, physical properties, or other properties, of species falling within the genus sufficient to distinguish the genus from other materials. Id. at 1568 (quoting Fiers v. Revel, 984 F.2d 1164, 1171 (Fed. Cir. 1993)). We have also held that functional claim language can meet the written description requirement when the art has established a correlation between structure and function. See Enzo, 323 F.3d at 964 (quoting 66 Fed. Reg. 1099 (Jan. 5, 2001)). But merely drawing a fence around the outer limits of a purported genus is not an adequate substitute for describing a variety of materials constituting the genus and showing that one has invented a genus and not just a species.

In fact, this case similarly illustrates the problem of generic claims. The claims here recite methods encompassing a genus of materials achieving a stated useful result, i.e., reducing NF-κB binding to NF-κB recognition sites in response to external influences. But the specification does not disclose a variety of species that accomplish the result. See Eli Lilly, 119 F.3d at 1568 (“The description requirement of the patent statute requires a description of an invention, not an indication of a result that one might achieve if one made that invention.”). Thus, as indicated infra, that specification fails to meet the written description requirement by describing only a generic invention that it purports to claim.

We also specifically addressed and rejected Ariad’s argument regarding original claims in Fiers, 984 F.2d at 1170, and again in Enzo, 323 F.3d at 968. In Fiers, we rejected the argument that “only similar language in the specification or original claim is necessary to satisfy the written description requirement.” 984 F.2d at 1170 (emphasis added). Rather, we held that 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. Id. at 1170-71. That Fiers applied § 112, first paragraph, during an interference is irrelevant for, as we stated above, the statute contains no basis for ignoring the description requirement outside of this context. And again in Enzo we held that generic claim language appearing in ipso verbis in the original specification does not satisfy the written description requirement if it fails to support the scope of the genus claimed. 323 F.3d at 968. We concluded that “[a] claim does not become more descriptive by its repetition, or its longevity.” Id. at 969.

Ariad argues that Eli Lilly constituted a change in the law, imposing new requirements on biotechnology inventions. We disagree. Applying the written description requirement outside of the priority context in our 1997 Eli Lilly decision merely faithfully applied the statute, consistent with Supreme Court precedent and our case law dating back at least to our predecessor court's Ruschig decision. Neither the statute nor legal precedent limits the written description requirement to cases of priority or distinguishes between original and amended claims. The application of the written description requirement to original language was raised in Fiers, Eli Lilly, and Enzo, and is raised again by the parties here. Once again we reject Ariad's argument and hold that generic language in the application as filed does not automatically satisfy the written description requirement.

F.

Since its inception, this court has consistently held that § 112, first paragraph, contains a written description requirement separate from enablement, and we have articulated a "fairly uniform standard," which we now affirm. Vas-Cath Inc. v. Mahurkar, 935 F.2d 1555, 1562-63 (Fed. Cir. 1991). Specifically, the description must "clearly allow persons of ordinary skill in the art to recognize that [the inventor] invented what is claimed." Id. at 1563 (citing In re Gosteli, 872 F.2d 1008, 1012 (Fed. Cir. 1989)). In other words, 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. Id. (quoting Ralston Purina Co. v. Far-Mar-Co, Inc., 772 F.2d 1570, 1575 (Fed. Cir. 1985)); see also In re Kaslow, 707 F.2d 1366, 1375 (Fed. Cir. 1983).

The term “possession,” however, has never been very enlightening. It implies that as long as one can produce records documenting a written description of a claimed invention, one can show possession. But the hallmark of written description is disclosure. Thus, “possession as shown in the disclosure” is a more complete formulation. Yet whatever the specific articulation, the test requires an objective inquiry into the four corners of the specification from the perspective of a person of ordinary skill in the art. Based on that inquiry, the specification must describe an invention understandable to that skilled artisan and show that the inventor actually invented the invention claimed.

This inquiry, as we have long held, is a question of fact. Ralston Purina, 772 F.2d at 1575. Thus, we have recognized that determining whether a patent complies with the written description requirement will necessarily vary depending on the context. Capon v. Eshhar, 418 F.3d 1349, 1357-58 (Fed. Cir. 2005). Specifically, 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. Id. For generic claims, we have set forth a number of factors for evaluating the adequacy of the disclosure, including “the existing knowledge in the particular field, the extent and content of the prior art, the maturity of the science or technology, [and] the predictability of the aspect at issue.” Id. at 1359.

The law must be applied to each invention at the time it enters the patent process, for each patented advance has a novel relationship with the state of the art from which it emerges. Thus, we do not try here to predict and adjudicate all the factual scenarios to which the written description requirement could be applied. Nor do we set

out any bright-line rules governing, for example, the number of species that must be disclosed to describe a genus claim, as this number necessarily changes with each invention, and it changes with progress in a field. Compare Eli Lilly, 119 F.3d at 1567 (holding an amino acid sequence did not describe the DNA sequence encoding it), with In re Wallach, 378 F.3d 1330, 1334 (Fed. Cir. 2004) (discussing how it is now a “routine matter” to convert an amino acid sequence into all the DNA sequences that can encode it). Thus, whatever inconsistencies may appear to some to exist in the application of the law, those inconsistencies rest not with the legal standard but with the different facts and arguments presented to the courts.

There are, however, a few broad principles that hold true across all cases. We have made clear that the written description requirement does not demand either examples or an actual reduction to practice; a constructive reduction to practice that in a definite way identifies the claimed invention can satisfy the written description requirement. Falko-Gunter Falkner v. Inglis, 448 F.3d 1357, 1366-67 (Fed. Cir. 2006). Conversely, we have repeatedly stated that actual “possession” or reduction to practice outside of the specification is not enough. Rather, as stated above, it is the specification itself that must demonstrate possession. And while the description requirement does not demand any particular form of disclosure, Carnegie Mellon Univ. v. Hoffmann-La Roche Inc., 541 F.3d 1115, 1122 (Fed. Cir. 2008), or that the specification recite the claimed invention in haec verba, a description that merely renders the invention obvious does not satisfy the requirement, Lockwood v. Am. Airlines, 107 F.3d 1565, 1571-72 (Fed. Cir. 1997).

We also reject the characterization, cited by Ariad, of the court's written description doctrine as a "super enablement" standard for chemical and biotechnology inventions. The doctrine never created a heightened requirement to provide a nucleotide-by-nucleotide recitation of the entire genus of claimed genetic material; it has always expressly permitted the disclosure of structural features common to the members of the genus. Eli Lilly, 119 F.3d at 1569; see also Invitrogen Corp. v. Clontech Labs., Inc., 429 F.3d 1052, 1073 (Fed. Cir. 2005) (holding the written description requirement satisfied by a representative number of sequences of the claimed genus of enzymes). It also has not just been applied to chemical and biological inventions. See LizardTech, Inc. v. Earth Res. Mapping, Inc., 424 F.3d 1336, 1343-47 (Fed. Cir. 2005).

Perhaps there is little difference in some fields between describing an invention and enabling one to make and use it, but that is not always true of certain inventions, including chemical and chemical-like inventions. Thus, although written description and enablement often rise and fall together, requiring a written description of the invention plays a vital role in curtailing claims that do not require undue experimentation to make and use, and thus satisfy enablement, but that have not been invented, and thus cannot be described. For example, a propyl or butyl compound may be made by a process analogous to a disclosed methyl compound, but, in the absence of a statement that the inventor invented propyl and butyl compounds, such compounds have not been described and are not entitled to a patent. See In re DiLeone, 436 F.2d 1404, 1405 n.1 (CCPA 1971) ("[C]onsider the case where the specification discusses only compound A and contains no broadening language of any kind. This might very well enable one

skilled in the art to make and use compounds B and C; yet the class consisting of A, B and C has not been described.”).

The written description requirement also ensures that when a patent claims a genus by its function or result, the specification recites sufficient materials to accomplish that function—a problem that is particularly acute in the biological arts.⁵ See Guidelines for Examination of Patent Applications Under the 35 U.S.C. 112, 1, “Written Description” Requirement, 66 Fed. Reg. 1099, 1105-1106 (Jan. 5, 2001). This situation arose not only in Eli Lilly but again in University of Rochester v. G.D. Searle & Co., Inc., 358 F.3d 916 (Fed. Cir. 2004). In Rochester, we held invalid claims directed to a method of selectively inhibiting the COX-2 enzyme by administering a non-steroidal compound that selectively inhibits the COX-2 enzyme. Id. at 918. We reasoned that because the specification did not describe any specific compound capable of performing the claimed method and the skilled artisan would not be able to identify any such compound based on the specification’s function description, the specification did not provide an adequate written description of the claimed invention. Id. at 927-28. Such claims merely recite a description of the problem to be solved while claiming all solutions to it and, as in Eli Lilly and Ariad’s claims, cover any compound later actually invented and determined to fall within the claim’s functional boundaries—leaving it to the pharmaceutical industry to complete an unfinished invention.

⁵ The record does not reflect how often the PTO rejects claims as enabled but not described, but the government believes the number to be high. Oral Argument at 23:17-23:53. At least one example has made it to this court in recent years, In re Alonso, in which the PTO found claims to a method of treating a tumor by administering an effective amount of an antibody that recognizes the tumor enabled but, as we affirmed, not adequately described. 545 F.3d 1015, 1021-22, 1022 n.6. (Fed. Cir. 2008).

Ariad complains that the doctrine disadvantages universities to the extent that basic research cannot be patented. But the patent law has always been directed to the “useful Arts,” U.S. Const. art. I, § 8, cl. 8, meaning inventions with a practical use, see Brenner v. Manson, 383 U.S. 519, 532-36 (1966). Much university research relates to basic research, including research into scientific principles and mechanisms of action, see, e.g., Rochester, 358 F.3d 916, and universities may not have the resources or inclination to work out the practical implications of all such research, i.e., finding and identifying compounds able to affect the mechanism discovered. That is no failure of the law’s interpretation, but its intention. Patents are not awarded for academic theories, no matter how groundbreaking or necessary to the later patentable inventions of others. “[A] patent is not a hunting license. It is not a reward for the search, but compensation for its successful conclusion.” Id. at 930 n.10 (quoting Brenner, 383 U.S. at 536). Requiring a written description of the invention limits patent protection to those who actually perform the difficult work of “invention”—that is, conceive of the complete and final invention with all its claimed limitations—and disclose the fruits of that effort to the public.

That research hypotheses do not qualify for patent protection possibly results in some loss of incentive, although Ariad presents no evidence of any discernable impact on the pace of innovation or the number of patents obtained by universities. But claims to research plans also impose costs on downstream research, discouraging later invention. The goal is to get the right balance, and the written description doctrine does so by giving the incentive to actual invention and not “attempt[s] to preempt the future before it has arrived.” Fiers, 984 F.2d at 1171. As this court has repeatedly stated, the

purpose of the written description requirement is to “ensure that the scope of the right to exclude, as set forth in the claims, does not overreach the scope of the inventor’s contribution to the field of art as described in the patent specification.” Rochester, 358 F.3d at 920 (quoting Reiffin v. Microsoft Corp., 214 F.3d 1342, 1345 (Fed. Cir. 2000)). It is part of the quid pro quo of the patent grant and ensures that the public receives a meaningful disclosure in exchange for being excluded from practicing an invention for a period of time. Enzo, 323 F.3d at 970.

II.

Because we reaffirm our written description doctrine, we see no reason to deviate from the panel’s application of that requirement to the facts of this case. As such, we adopt that analysis, as follows, as the decision of the en banc court.

A.

We review the denial of Lilly’s motion for JMOL without deference. CytoLogix Corp. v. Ventana Med. Sys., Inc., 424 F.3d 1168, 1172 (Fed. Cir. 2005) (applying First Circuit law). Under First Circuit law, JMOL is warranted pursuant to Fed. R. Civ. P. 50(a)(1) where “there is no legally sufficient evidentiary basis for a reasonable jury to find” for the non-moving party. Guilloty Perez v. Pierluisi, 339 F.3d 43, 50 (1st Cir. 2003) (quotations omitted). “A patent is presumed to be valid, and this presumption only can be overcome by clear and convincing evidence to the contrary.” Enzo, 424 F.3d at 1281 (citing WMS Gaming Inc. v. Int’l Game Tech., 184 F.3d 1339, 1355 (Fed. Cir. 1999)); see 35 U.S.C. § 282.

Ariad explains that developing the subject matter of the ’516 patent “required years of hard work, great skill, and extraordinary creativity—so much so that the

inventors first needed to discover, give names to, and describe previously unknown cellular components as a necessary predicate for their inventions.” Lilly offered the undisputed expert testimony of David Latchman that the field of the invention was particularly unpredictable. Thus, this invention was made in a new and unpredictable field where the existing knowledge and prior art was scant. See Capon, 418 F.3d at 1359.

B.

Ariad claims methods comprising the single step of reducing NF-κB activity. Lilly argues that the asserted claims are not supported by a written description because the specification of the '516 patent fails to adequately disclose how the claimed reduction of NF-κB activity is achieved. The parties agree that the specification of the '516 patent hypothesizes three classes of molecules potentially capable of reducing NF-κB activity: specific inhibitors, dominantly interfering molecules, and decoy molecules. Lilly contends that this disclosure amounts to little more than a research plan, and does not satisfy the patentee's quid pro quo as described in Rochester. Ariad responds that Lilly's arguments fail as a matter of law because Ariad did not actually claim the molecules. According to Ariad, because there is no term in the asserted claims that corresponds to the molecules, it is entitled to claim the methods without describing the molecules. Ariad's legal assertion, however, is flawed.

In Rochester, as discussed above, we held very similar method claims invalid for lack of written description. 358 F.3d at 918-19 (holding the patent invalid because “Rochester did not present any evidence that the ordinarily skilled artisan would be able to identify any compound based on [the specification's] vague functional description”);

see also Fiers, 984 F.2d at 1170-71 (holding a claim to a genus of DNA molecules not supported by written description of a method for obtaining the molecules); cf. Eli Lilly, 119 F.3d at 1567-68 (holding claims to a broad genus of genetic material invalid because the specification disclosed only one particular species). Ariad attempts to categorically distinguish Rochester, Fiers, and Eli Lilly, because in those cases, the claims explicitly included the non-described compositions. For example, in Rochester, the method claims recited a broad type of compound that we held was inadequately described in the specification of the patent:

1. A method for selectively inhibiting PGHS-2 activity in a human host, comprising administering a non-steroidal compound that selectively inhibits activity of the PGHS-2 gene product to a human host in need of such treatment.

Id. at 918 (emphasis added). Ariad's attempt to distinguish these cases is unavailing. Regardless whether the asserted claims recite a compound, Ariad still must describe some way of performing the claimed methods, and Ariad admits that the specification suggests only the use of the three classes of molecules to achieve NF- κ B reduction. Thus, to satisfy the written description requirement for the asserted claims, the specification must demonstrate that Ariad possessed the claimed methods by sufficiently disclosing molecules capable of reducing NF- κ B activity so as to "satisfy the inventor's obligation to disclose the technologic knowledge upon which the patent is based, and to demonstrate that the patentee was in possession of the invention that is claimed." Capon, 418 F.3d at 1357.

C.

Alternatively, Ariad argues that the specification of the '516 patent and the expert testimony of Tom Kadesch provided the jury with substantial evidence of adequate

written description of the claimed methods. “A determination that a patent is invalid for failure to meet the written description requirement of 35 U.S.C. § 112, ¶ 1 is a question of fact, and we review a jury’s determinations of facts relating to compliance with the written description requirement for substantial evidence.” PIN/NIP, Inc. v. Platte Chem. Co., 304 F.3d, 1235, 1243 (Fed. Cir. 2002) (citing Vas-Cath, 935 F.2d at 1563).

Much of Ariad’s written description evidence, however, is legally irrelevant to the question of whether the disclosure of the ’516 patent conveys to those skilled in the art that the inventors were in possession of the claimed generic invention on April 21, 1989—the effective filing date of the ’516 patent. The parties disputed the effective filing date of the ’516 patent, and in a detailed and well-crafted special verdict form, the jury was asked to choose between the two possible dates: April 21, 1989, and November 13, 1991. The jury chose 1989 and neither party appealed that determination. Presumably because of uncertainty over the priority date, much of Ariad’s evidence was actually directed to the later date. Because written description is determined as of the filing date—April 21, 1989, in this case—evidence of what one of ordinary skill in the art knew in 1990 or 1991 cannot provide substantial evidence to the jury that the asserted claims were supported by adequate written description. See Vas-Cath, 935 F.2d at 1563-64 (holding that a written description analysis occurs “as of the filing date sought”).

In accordance with Rochester, the ’516 patent must adequately describe the claimed methods for reducing NF-κB activity, including adequate description of the molecules that Ariad admits are necessary to perform the methods. The specification of the ’516 patent hypothesizes three classes of molecules potentially capable of reducing

NF- κ B activity: specific inhibitors, dominantly interfering molecules, and decoy molecules. We review the specification's disclosure of each in turn to determine whether there is substantial evidence to support the jury's verdict that the written description evidenced that the inventor possessed the claimed invention.

Specific inhibitors are molecules that are "able to block (reduce or eliminate) NF- κ B binding" to DNA in the nucleus. '516 patent col.37 ll.44-45. The only example of a specific inhibitor given in the specification is I- κ B, a naturally occurring molecule whose function is to hold NF- κ B in an inactive state until the cell receives certain external influences. Id. at col.37 ll.48-49. Nearly all of Ariad's evidence regarding the disclosure of I- κ B relies upon figure 43. Ariad's expert, Dr. Kadesch, testified that figure 43 discloses the sequence of DNA that encodes I- κ B and relied on this disclosure with regard to his opinion that the written description requirement was satisfied by disclosure of specific inhibitor molecules. See Trial Tr. 53; 57-58; 60; 78-85, Apr. 27, 2006. But as Ariad admits, figure 43 was not disclosed until 1991. Because figure 43 was not in the 1989 application, neither it nor Dr. Kadesch's testimony regarding it can offer substantial evidence for the jury determination. See Vas-Cath, 935 F.2d at 1563-64. The only other testimony of Dr. Kadesch with regard to I- κ B was that it existed in 1989 and that one of ordinary skill could through experimentation isolate natural I- κ B. See Trial Tr. at 62-85. In the context of this invention, a vague functional description and an invitation for further research does not constitute written disclosure of a specific inhibitor.⁶ See

⁶ Moreover, the district court found, in the context of its inequitable conduct ruling, that figure 43 is both incorrect and incomplete. Ariad Pharms., 529 F.Supp.2d at 123-25 (finding those errors material). That the inventors of the '516 patent, among the most skilled artisans in their field in the world at this time, failed to correctly disclose the structure of I- κ B even two years after the application was filed is a strong sign that one

Eli Lilly, 119 F.3d at 1566 (holding that written description requires more than a “mere wish or plan for obtaining the claimed chemical invention”); see also id. at 1567 (“[A] description which renders obvious a claimed invention is not sufficient to satisfy the written description requirement of that invention.”). And it certainly does not constitute written disclosure of a method for reducing NF-κB activity using I-κB.

Dominantly interfering molecules are “a truncated form of the NF-κB molecule.” ’516 patent col.38 l.11. The truncation would “retain[] the DNA binding domain, but lack[] the RNA polymerase activating domain.” Id. at col.38 ll.13-14. As such, the dominantly interfering molecule “would recognize and bind to the NF-KB binding site [on nuclear DNA], however, the binding would be unproductive.” Id. at col.38 ll.15-17. In other words, the dominantly interfering molecules would block natural NF-κB from inducing the expression of its target genes. The specification provides no example molecules of this class. Moreover, the specification acknowledges that dominantly interfering molecules can work only “if the DNA binding domain and the DNA polymerase domain of NF-κB are spatially distinct in the molecule.” Id. at col.38 ll.9-10 (emphasis added). The jury also heard Dr. Kadesch’s testimony that “it is a fair representation” that “the ’516 patent itself doesn’t disclose in its text that the DNA binding domain and the RNA preliminary activating domain of NF-κB are, in fact, separable or spatially distinct.” Considering that the inventors of the ’516 patent discovered NF-κB, if they did not know whether the two domains are distinct, one of ordinary skill in the art was at best equally ignorant. Perhaps one of ordinary skill could discover this information, but this does not alter our conclusion that the description of

of skill in the art could not be expected to provide this knowledge in 1989.

the dominantly interfering molecules “just represents a wish, or arguably a plan” for future research. Fiers, 984 F.2d at 1171; see Eli Lilly, 119 F.3d at 1567 (rendering obvious is insufficient for written description). Nor is it sufficient, as Ariad argues, that “skilled workers actually practiced this teaching soon after the 1989 application was filed.” See Vas-Cath, 935 F.2d at 1563-64 (holding that a written description analysis occurs “as of the filing date sought”).

Decoy molecules are “designed to mimic a region of the gene whose expression would normally be induced by NF-κB. In this case, NF-κB would bind the decoy, and thus, not be available to bind its natural target.” ’516 patent col.37 ll.51-54. Like the other two classes of molecules, decoy molecules are presented hypothetically, but unlike the other two classes of molecules, the specification proposes example structures for decoy molecules. Id. at col.37 tbl.2. As Dr. Kadesch explained, decoy molecules are DNA oligonucleotides, and because the specification discloses specific example sequences, there is little doubt that the specification adequately described the actual molecules to one of ordinary skill in the art. Yet this does not answer the question whether the specification adequately describes using those molecules to reduce NF-κB activity. The full extent of the specification’s disclosure of a method that reduces NF-κB activity using decoy molecules is that NF-κB “would bind the decoy” and thereby, “negative regulation can be effected.” Id. at col.37 ll.50-54. Prophetic examples are routinely used in the chemical arts, and they certainly can be sufficient to satisfy the written description requirement. But this disclosure is not so much an “example” as it is a mere mention of a desired outcome. As Dr. Latchman pointed out,

there is no descriptive link between the table of decoy molecules and reducing NF-κB activity.

Ariad also relies upon “[a] 1990 publication in evidence [that] reported using decoy molecules to reduce NF-κB activity” which was discussed by Dr. Kadesch. Appellee Br. 25-26. Again, because the priority date was determined to be 1989, the disclosure in a later publication cannot, as a matter of law, establish that the inventor in this case possessed using decoy molecules to reduce NF-κB when the patent application was filed in 1989. Dr. Kadesch's reliance on this evidence as support for his opinion is likewise erroneous.⁷

We reviewed all other portions of Dr. Kadesch's testimony that Ariad contends provided the jury with substantial evidence relating to each of the three classes of molecules, and we deem them insufficient as a matter of law.⁸ Indeed, most of the testimony cited by Ariad was irrelevant to the question whether the inventors were in possession of the claimed invention as of the 1989 priority date. The '516 patent discloses no working or even prophetic examples of methods that reduce NF-κB

⁷ Dr. Kadesch testified that the scientists who conducted the decoy molecule study published in November 1990 would likely have mastered their technique prior to the filing of the '516 patent application in April 1989. Perhaps so, but this fact is not in evidence, and even if it were true, one research group does not necessarily represent the knowledge of one of ordinary skill in the art without further testimony to support that contention.

⁸ Dr. Kadesch certainly offered a general conclusion that he thought the inventors were in possession of the claimed invention in 1989. This conclusory testimony, as shown infra, is devoid of any factual content upon which the jury could have relied when considering the specification of the '516 patent, and therefore cannot constitute substantial evidence. Besides, possession of an invention must be shown by written description in the patent application, and that was not shown here. See Rochester, 358 F.3d at 926 (“After all, it is in the patent specification where the written description requirement must be met.”).

activity, and no completed syntheses of any of the molecules prophesized to be capable of reducing NF- κ B activity. The state of the art at the time of filing was primitive and uncertain, leaving Ariad with an insufficient supply of prior art knowledge with which to fill the gaping holes in its disclosure. See Capon, 418 F.3d at 1358 (“It is well-recognized that in the unpredictable fields of science, it is appropriate to recognize the variability in the science in determining the scope of the coverage to which the inventor is entitled.”).

Whatever thin thread of support a jury might find in the decoy-molecule hypothetical simply cannot bear the weight of the vast scope of these generic claims. See LizardTech, 424 F.3d at 1345 (holding that “[a]fter reading the patent, a person of skill in the art would not understand” the patentee to have invented a generic method where the patent only disclosed one embodiment of it); Reiffin, 214 F.3d at 1345-46 (noting that the “scope of the right to exclude” must not “overreach the scope of the inventor’s contribution to the field of art as described in the patent specification”); Fiers, 984 F.2d at 1171 (“Claiming all DNA[s] that achieve a result without defining what means will do so is not in compliance with the description requirement; it is an attempt to preempt the future before it has arrived.”); cf. Carnegie Mellon, 541 F.3d at 1126 (holding that the narrow description of the E. coli polA gene did not adequately support a broad claim to the gene from any bacterial source). Here, the specification at best describes decoy molecule structures and hypothesizes with no accompanying description that they could be used to reduce NF- κ B activity. Yet the asserted claims are far broader. We therefore conclude that the jury lacked substantial evidence for its

verdict that the asserted claims were supported by adequate written description, and thus hold the asserted claims invalid.

CONCLUSION

For the foregoing reasons, we hold that the asserted claims of the '516 patent are invalid for lack of written description, and we do not address the other validity issues that were before the panel. We also reinstate Part II of the panel decision reported at 560 F.3d 1366 (Fed. Cir. 2009), affirming the district court's finding of no inequitable conduct. The judgment below is

REVERSED IN PART AND AFFIRMED IN PART

United States Court of Appeals for the Federal Circuit

2008-1248

ARIAD PHARMACEUTICALS, INC.,
MASSACHUSETTS INSTITUTE OF TECHNOLOGY,
THE WHITEHEAD INSTITUTE FOR BIOMEDICAL RESEARCH,
and THE PRESIDENT AND FELLOWS OF HARVARD COLLEGE,

Plaintiffs-Appellees,

v.

ELI LILLY AND COMPANY,

Defendant-Appellant.

Appeal from the United States District Court for the District of Massachusetts in Case No. 02-CV-11280, Judge Rya W. Zobel.

NEWMAN, Circuit Judge, additional views.

I join the court's opinion. However, I write separately because the real issue of this case is too important to be submerged in rhetoric. The issue was recognized by Ariad, who complained that the written description requirement "has severe adverse consequences for research universities" because it prevents the patenting of "the type of discoveries that universities make," that is, it prevents the patenting of basic scientific research. Ariad Br. on Rehearing En Banc at 38-39. This question is squarely joined in this case, for the subject matter is indeed basic research, which was taken to the patent system before its practical application was demonstrated. In the district court, this aspect was discussed in terms of Section 101. The panel preferred Section 112; and

the en banc court has now been diverted into a scholarly debate about the punctuation in the first paragraph of Section 112.

As the facts reach us, a previously unknown protein, called NF-kB (Nuclear Factor kappaB), was discovered and found to mediate certain intracellular signaling. The scientists/inventors postulated that reducing NF-kB activity can reduce the symptoms of certain diseases, and they identified three general methods of achieving that reduction, viz., by using decoy cells, dominantly interfering molecules, and specific inhibitor molecules. None of these methods was tried, although they are discussed in the patent specification, and the postulated physiological result was not shown. However, the record states that other scientists have successfully conducted further experiments in this field, building on this scientific achievement.

Ariad argues that the patentees made a basic discovery, and are not required to demonstrate its application in order to patent their "pioneering" achievement. Indeed, pioneering inventions can receive broad patents, when shown to have broad scope. The court deems the absence of any specific example of the postulated method of reducing symptoms to be a failure in the description of the invention. The dissenters appear to deem the inclusion of general methods whereby this result could be achieved, to suffice for patentability of the basic scientific concept. These are close, fact-dependent questions, raising many issues, as the large number of amicus curiae briefs attest.

In my view, the overriding policy of patent systems requires both written description and enablement, and it is less critical to decide which statutory clause applies in a particular case, than to assure that both requirements are met. This has

been the practice since the first Patent Act, as the opinions and amici have explored. How this is achieved varies with many factors, including “the existing knowledge in the particular field, the extent and content of the prior art, the maturity of the science or technology, the predictability of the aspect at issue.” Capon v. Eshhar, 418 F.3d 1349, 1359 (Fed. Cir. 2005). Although the content varies, the threshold in all cases requires a transition from theory to practice, from basic science to its application, from research plan to demonstrated utility.

The written description is the way by which the scientific/technologic information embodied in patented inventions is disseminated to the public, for addition to the body of knowledge and for use in further understanding and advance. See id. at 1357 (“The written description requirement thus satisfies the policy premises of the law, whereby the inventor’s technical/scientific advance is added to the body of knowledge, as consideration for the grant of patent exclusivity.”). This accords with long-standing principles, as in the classical case of O’Reilly v. Morse, 56 U.S. (15 How.) 62 (1853), where the Court approved Samuel Morse’s claims based on the system of current boosters that achieved his long-distance communication called the telegraph, but denied his claims for this use of an electric current “however developed.” Id. at 113. As the court debates the relationship between “written description” and “enablement,” let us not lose sight of the purpose of Section 112.

Basic scientific principles are not the subject matter of patents, while their application is the focus of this law of commercial incentive. The role of the patent system is to encourage and enable the practical applications of scientific advances, through investment and commerce. Although Ariad points out that “basic patents” of

broad scope are well recognized, several amici point out that in no case has an invention of basic science been patented with not even one embodiment demonstrating its application and illustrating its breadth. Lilly points out that the specification herein demonstrates none of the three methods that are suggested for possible use to reduce NF-kB activity in cells.

The practical utility on which commercial value is based is the realm of the patent grant; and in securing this exclusionary right, the patentee is obliged to describe and to enable subject matter commensurate with the scope of the exclusionary right. This is not a question of grammatical nuance of the placement of commas in Section 112; it is a question of the principle and policy of patent systems. The court's opinion implements these precepts.

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GAJARSA, Circuit Judge, concurring.

I join the opinion of the court, but write separately to explain my reasons for doing so. Whether there is a free standing written description requirement pursuant to § 112, ¶ 1 is a matter of statutory interpretation as the majority correctly notes. Maj. Op. at 7-12. In my judgment, the text of § 112, ¶ 1 is a model of legislative ambiguity. The interpretation of the statute, therefore, is one over which reasonable people can disagree, and indeed, reasonable people have so disagreed for the better part of a decade. See, e.g., Univ. of Rochester v. G.D. Searle & Co., 375 F.3d 1303 (Fed. Cir. 2004) (denial of rehearing en banc); Enzo Biochem, Inc. v. Gen-Probe Inc., 323 F.3d 956 (Fed. Cir. 2002) (denial of rehearing en banc). While not entirely free from doubt, the majority's interpretation of § 112, ¶ 1 is reasonable, and for the need to provide

some clarity to this otherwise conflicting area of our law, I concur with the majority's opinion that the statute may be interpreted to set forth an independent written description requirement.

I disagree, however, with those who view an independent written description requirement as a necessity of patent law. This court and the various amici curiae have spent considerable time and resources addressing whether § 112, ¶ 1 provides a distinct written description requirement wholly separate from enablement. Contrary to the representations of the Patent Office and the opinions of members of this court, I do not believe that this issue has a significant, practical impact. See Government Br. at 19 (claiming written description serves an "indispensable role in the administration of the patent system"); Moba, B.V. v. Diamond Automation, Inc., 325 F.3d 1306, 1322 (Rader, J., concurring) ("By making written description a free-standing disclosure doctrine, this court produces numerous unintended and deleterious consequences."). Empirical evidence demonstrates that outside the priority context the written description doctrine seldom serves as a separate vehicle for invalidating claims. See, e.g., Dennis Crouch, An Empirical Study of the Role of the Written Description Requirement in Patent Prosecution 12 (Univ. of Mo. Sch. Of Law Legal Studies Research Paper No. 2010-06, 2000), available at <http://ssrn.com/abstract=1554949> (analyzing 2858 Board of Patent Appeals and Interference patent opinions decided between January and June 2009 and finding "none of the outcomes of those decisions would have been impacted by a hypothetical change that eliminated the written description requirement so long as new matter rejections were still allowed under the same standard available today"); Christopher Holman, Is Lilly Written Description a Paper Tiger?: A Comprehensive

Assessment of the Impact of Eli Lilly and its Progeny in the Courts and PTO, 17 Alb. L.J. Sci. & Tech. 1, 26-78 (2007) (analyzing Federal Circuit, district court, and BPAI cases since Regents of the University of California v. Eli Lilly & Co., 119 F.3d 1559 (Fed. Cir. 1997), and finding only a small number of cases that invalidated a claim for failure to satisfy the written description requirement).¹

The empirical evidence confirms my belief that written description serves little practical purpose as an independent invalidity device and better serves the goals of the Patent Act when confined to the priority context. As a matter of statutory interpretation, however, we cannot limit the written description only to priority cases, but Congress could establish such a limit by statute. Section 112, ¶ 1's enablement requirement is a more than adequate vehicle for invalidating claims that are broader than their disclosure. See J.E.M. AG Supply, Inc. v. Pioneer Hi-Bred Int'l, Inc., 534 U.S. 124, 142 (2001) (identifying an enabling disclosure as the quid pro quo of the patent monopoly); Martek Biosciences Corp. v. Nutrinova, Inc., 579 F.3d 1363, 1378 (Fed. Cir. 2009) ("To meet the enablement requirement, the specification of a patent must teach those skilled

¹ More specifically, Holman finds that (1) written description challenges to a patent's validity rarely arise, and (2) when they do occur, very few patents have been invalidated, whether by the Federal Circuit, district courts or the BPAI. According to Holman, over a nine-year period, the Federal Circuit rejected written description-based challenges on six occasions, while it upheld such challenges in only four cases. During the same period of time and excluding those decisions addressed by the Federal Circuit, district courts rejected written description challenges on ten occasions, and upheld them once. Finally, the BPAI rejected written description challenges on twenty-two occasions, while upholding them only nine times. Id. at 26-78.

Furthermore, Holman discusses each of the cases before the courts and the BPAI where a challenge under the written description requirement was upheld and argues that in most cases the patent would have also been invalid for lack of enablement or that the court or BPAI substantially blurred the line between enablement and written description. Id. at 78-79.

in the art how to make and use the full scope of the claimed invention without undue experimentation.”). Confining written description to the priority context would provide greater clarity to district courts and practitioners, both of whom are currently left to trudge through a thicket of written description jurisprudence that provides no conclusive answers and encourages a shotgun approach to litigation. Yet, this thicket is the result of our best efforts to construe an ambiguous statute; only Congress wields the machete to clear it.

Accordingly, because the majority’s opinion provides a reasonable interpretation of a less than clear statute, I join the opinion.

United States Court of Appeals for the Federal Circuit

2008-1248

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Plaintiffs-Appellees,

v.

ELI LILLY AND COMPANY,

Defendant-Appellant.

Appeal from the United States District Court for the District of Massachusetts in Case No. 02-CV-11280, Judge Rya W. Zobel.

RADER, Circuit Judge, with whom LINN, Circuit Judge, joins, dissenting-in-part and concurring-in-part.

The Constitution of the United States gives Congress, not the courts, the power to promote the progress of the useful arts by securing exclusive rights to inventors for limited times. Art. I, § 8, cl. 8. Yet this court proclaims itself the body responsible for achieving the “right balance” between upstream and downstream innovation. Ante at 28. The Patent Act, however, has already established the balance by requiring that a patent application 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 . . . to make and use the same.” 35 U.S.C. § 112, ¶ 1 (emphasis added). In rejecting that statutory balance in favor of an undefined “written description” doctrine, this court ignores the problems of standardless decision making and serious conflicts with other areas of patent law. Because the

Patent Act already supplies a better test, I respectfully dissent.

I.

The frailties of this court's "written description" doctrine have been exhaustively documented in previous opinions. See, e.g., Enzo Biochem, Inc. v. Gen-Probe Inc., 323 F.3d 956, 976 (Fed. Cir. 2002) (Rader, J., dissenting from denial of rehearing en banc); id. at 987 (Linn, J., dissenting from denial of rehearing en banc); Moba, B.V. v. Diamond Automation, Inc., 325 F.3d 1306, 1322 (Fed. Cir. 2003) (Rader, J., concurring); id. at 1327 (Bryson, J., concurring); Univ. of Rochester v. G.D. Searle & Co., Inc., 375 F.3d 1303, 1307 (Fed. Cir. 2004) (Rader, J., dissenting from denial of rehearing en banc); id. at 1325 (Linn, J., dissenting from denial of rehearing en banc); LizardTech, Inc. v. Earth Res. Mapping, Inc., 433 F.3d 1373, 1376 (Fed. Cir. 2006) (Rader, J., dissenting from denial of rehearing en banc); Ariad Pharms., Inc. v. Eli Lilly & Co., 560 F.3d 1366, 1380 (Fed. Cir. 2009) (Linn, J., concurring). These earlier writings document the embarrassingly thin (perhaps even mistaken) justifications for the minting of this new description doctrine in 1997 and the extensive academic criticism of this product of judicial imagination. For present purposes I will only recount those frailties of this court's relatively recent justifications for a doctrine of its own making.

First and foremost, the separate written description requirement that the court petrifies today has no statutory support. As noted, § 112, first paragraph, 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.

This language, while cumbersome, is unambiguous. It says that the written descriptions of the invention and of the manner and process of making and using the invention are both judged by whether they are in such full, clear, concise, and exact terms as to enable a person skilled in the art to make and use the invention. The reason for a description doctrine is clear: to ensure that the inventor fully discloses the invention in exchange for an exclusive right. The test for the adequacy of the specification that describes the invention is also clear: Is the description sufficient to enable a person of ordinary skill in the art to make and use the claimed invention? Nowhere does the paragraph require that the inventor satisfy some quixotic possession requirement.

This court, however, calves the “written description of the invention” language out of its context in the rest of the paragraph. In this court’s strained reading, the prepositional phrases that follow apply only to a “written description . . . of the manner and process of making and using” the invention, not to a “written description of the invention.” The practical effect of the court’s interpretation is that the written description of the invention contained in the specification need not be full. It need not be clear. It need not be concise. It need not be exact. But see Phillips v. AWH Corp., 415 F.3d 1303, 1316 (Fed. Cir. 2005) (en banc) (“The close kinship between the written description and the claims is enforced by the statutory requirement that the specification describe the claimed invention in ‘full, clear, concise, and exact terms.’”) (emphasis added). And, of course, it need not enable. Instead, it must satisfy a vague possession notion.

To support its reading of the statute, the court relies on a new doctrine of statutory interpretation that it calls “parallelism.” Ante at 10. Before today, parallelism

would have been simply disfavored under the maxim that the law does not use redundant language, a maxim that has actually been used by courts before. (Indeed, even the court uses this maxim when it fits its purpose, see ante at 11.) If Congress had intended enablement to test only the sufficiency of the written description of the manner and process of making and using the invention, then it would have simply required “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 do so.” Note also that the comma after “it” in the statute as written is meaningless under the court’s interpretation.

Moreover, if “parallelism” is indeed the right test, then it conflicts with the court’s separate argument that the written description of the invention test has been separate from the enablement test since the 1793 Act. A close look at Section 3 of the 1793 Act reveals that the “parallelism” there connects the enablement clause to both written description requirements:

[E]very inventor, before he can receive a patent shall . . . deliver a written description of his invention, and of the manner of using, or process of compounding the same, in such full, clear and exact terms . . . to enable any person skilled . . . to make, compound, and use, the same.

Act of Feb. 27, 1793, 1 Stat. 318, 321-22, ch. 11, § 3 (emphasis added).

In reality, the court simply sidesteps the conflict between its position and the language of the statute by suggesting that Supreme Court precedent has settled this issue. Ante at 11. Of course, that is a question for the Supreme Court to answer, but reading the statute as it is written is in fact fully consistent with cases like Schreiber-Schroth Co. v. Cleveland Trust Co., 305 U.S. 47 (1938).

Specifically, the description doctrine under a correct reading of the statute shows

that a specification satisfies the “written description of the invention” requirement when it tells a person of skill in the art what the invention is. In other words, a proper reading of the statutory description requirement recognizes that the enablement requirement identifies the invention and tells a person of ordinary skill what to make and use. Of course, the original claims must always, by statute, “particularly point[] out and distinctly claim[] the subject matter which the applicant regards as his invention.” § 112, ¶ 2. Schriber-Schroth, as the court acknowledges, dealt with amended claims, as did Mackay Radio & Tel. Co. v. Radio Corp. of Am., 306 U.S. 86 (1939), and Gill v. Wells, 89 U.S. (22 Wall.) 1 (1874). These cases stand only for the unremarkable proposition that an applicant cannot add new matter to an original disclosure. Thus Supreme Court precedent is fully consistent with the logical reading of the statute and impeaches this court’s ultra vires imposition of a new written description requirement for original claims, an imposition that first arose in Regents of the University of California v. Eli Lilly & Co., 119 F.3d 1559, 1566-69 (Fed. Cir. 1997).

At this point, this dissent could once again document, as in Enzo, that every case before this court’s fabrication in 1997 actually applied the “written description” doctrine to police priority. Before 1982, this court’s predecessor referred to this doctrine as a new matter prohibition with respect to claims. See In re Rasmussen, 650 F.2d 1212, 1214 (CCPA 1981) (“The proper basis for rejection of a claim amended to recite elements thought to be without support in the original disclosure . . . is § 112, first paragraph, not § 132. . . . [The latter section] is properly employed as a basis for objection to amendments to the abstract, specifications, or drawings”) (emphasis added). In Eli Lilly, this court tragically did not even realize that it was breaking new

ground. It was not until Enzo that the court really became aware of its own activism. 323 F.3d at 971 (Lourie, J., concurring) (“It is said that applying the written description requirement outside of the priority context was novel until several years ago. Maybe so, maybe not; certainly such a holding was not precluded by statute or precedent. New interpretations of old statutes in light of new fact situations occur all the time.”). In sum, to its own surprise, the court learned in Enzo that it had applied the written description doctrine according to its broad title when in fact the doctrine had never policed description in general but only new matter abuses.

With Enzo, rather than admit error, this court began to thrash about to try and locate support for its new creation. Sadly this court cannot find any Supreme Court case that supports its new creation. This court attempts to twist some words in O’Reilly v. Morse to support its new conception. See 56 U.S. (15 How.) 62, 120-21 (1853) (“[A person] can lawfully claim only what he has invented and described, and if he claims more his patent is void.”). That case, however, did not ask the Court to address whether an enabling description would have been sufficient (which is probably why the court relegates its description of Morse to a footnote, see ante at 13 n.4). And this court clearly overstates the language of Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co., where the Supreme Court discussed passingly a non-exhaustive list of requirements found in § 112 as a whole, not simply the first paragraph. See 535 U.S. 722, 736 (2002).*

* The court’s reliance on Festo, ante at 14-15, is all the more perplexing because the Supreme Court in that case hardly purported to resolve the present question of massive consequence for all of patent law. See El Paso Co. v. United States, 694 F.2d 703, 711 (Fed. Cir. 1982) (stating in the context of pertinent dicta from a Supreme court opinion: “Usually . . . one seeking for valid precedents will pay more attention to what

As a kicker for its statutory interpretation, the court draws on the “quid pro quo of a patent.” Ante at 11. To the contrary, this court’s new creation offers the public nothing more in exchange for a patent than the statutory enablement requirement already ensures. As the Supreme Court explains, the “quid pro quo [for a patent monopoly] is disclosure of a process or device in sufficient detail to enable one skilled in the art to practice the invention once the period of the monopoly has expired.” Universal Oil Prods. Co. v. Globe Oil & Ref. Co., 322 U.S. 471, 484 (1944) (emphasis added). What “teaching function,” Ariad, 560 F.3d at 1370 (quoting Univ. of Rochester, 358 F.3d at 922), does the court propagate by telling an inventor that a patent application must show “possession as shown in the disclosure,” whatever that means? Inventors, to my knowledge, are always quite certain that they possess their invention.

II.

Eli Lilly was not only new law, it also is in tension with other areas of long-established law: claim construction and blocking patents, to name just two.

The doctrine of claim construction, a doctrine that is framed by the first two paragraphs of § 112, Phillips, 415 F.3d at 1311-12, presents an undeniable conflict of monumental proportions. As Phillips confirmed, and this court has confirmed and reconfirmed, claims must be read “in view of the specification” to determine their meaning. 415 F.3d at 1315 (quoting Markman v. Westview Instruments, 52 F.3d 967, 979 (Fed. Cir. 1995)); see, e.g., id. (“Claims must always be read in light of the

courts actually do with the case before them, than to dicta pronouncing rules textually extending beyond the facts of that case to other cases undreamt of by the deciding tribunal.”). This court’s need to point to dicta to support its conclusion merely establishes the point that the Supreme Court has yet to decide the issue.

specification. Here, the specification makes plain what the appellants did and did not invent”) (quoting In re Fout, 675 F.2d 297, 300 (CCPA 1982) (alteration in original)); Abbott Labs. v. Sandoz, Inc., 566 F.3d 1282, 1288 (Fed. Cir. 2009) (“[T]he claims cannot enlarge what is patented beyond what the inventor has described as the invention.”) (quotation omitted).

If this court followed its own rule and ensured that claims do not enlarge what the inventor has described, then the claims would never have a scope that exceeds the disclosure in the rest of the specification. Thus, this court would never find a claim that “lacks support” (again, whatever that means) in the rest of the patent document. In other words, this court’s new written description doctrine only has meaning if this court ignores its own claim construction rules. This court essentially claims unfettered power to err twice—both in construing the claims so broad as to exceed the scope of the rest of the specification and then to invalidate those claims because it reads the specification as failing to “support” this court’s own broad conception of the claimed subject matter.

“A ‘blocking patent’ is an earlier patent that must be licensed in order to practice a later patent. This often occurs, for instance, between a pioneer patent and an improvement patent.” Prima Tek II, L.L.C. v. A-Roo Co., 222 F.3d 1372, 1379 n.2 (Fed. Cir. 2000). The Supreme Court has long acknowledged the “well established” rule that “an improver cannot appropriate the basic patent of another and that the improver without a license is an infringer and may be sued as such.” Temco Elec. Motor Co. v. Apco Mfg. Co., 275 U.S. 319, 328 (1928). This blocking condition can exist even where the original patentee “failed to contemplate” an additional element found in the improvement patent. A.B. Dick Co. v. Burroughs Corp., 713 F.2d 700, 703 (Fed. Cir.

1983).

Blocking conditions conceivably occur often where a pioneering patent claims a genus and an improvement patent later claims a species of that genus. See, e.g., Utter v. Hiraga, 845 F.2d 993, 998 (Fed. Cir. 1988) (holding that in an interference proceeding “[t]here is no inconsistency in awarding a generic count to one inventor, while awarding a patentably distinct species count to another.”); W.L. Gore & Assocs., Inc. v. Garlock, Inc., 721 F.2d 1540, 1554 (Fed. Cir. 1983) (“Assuming [the first-in-time patent is] a dominating patent, the rule of law is clear that an accused infringer’s employment of the process of a dominating patent does not render that employment an anticipation of an invention described and claimed in an improvement patent.”). These blocking patents often serve the market well by pressuring both inventors to license their innovations to each other and beyond.

After Eli Lilly, however, the value of these blocking situations will disappear unless the pioneering patentee “possessed,” yet for some reason chose not to claim, the improvement. That situation, of course, would rarely, if ever, happen. See Rochester, 375 F.3d at 1312 (Rader, J., dissenting) (“Inventors know when they have made an invention and realize that they must properly disclose it or risk losing it entirely.”). Unfortunately the new Eli Lilly doctrine effectively prevents this long-standing precept of patent law. For example, although “[i]mprovement and selection inventions are ubiquitous in patent law; such developments do not cast doubt on enablement of the original invention,” CFMT, Inc. v. Yieldup Int’l Corp., 349 F.3d 1333, 1340 (Fed. Cir. 2003), they apparently do cast doubt on the written description of the original invention. See also Integra Lifesciences I, Ltd. v. Merck KGaA, 331 F.3d 860, 869 (Fed. Cir.

2003), vacated on other grounds, 545 U.S. 193 (2005) (“The ’525 patent is a genus patent. Such genus patents do not estop the applicant from later filing an improvement patent . . . to claim species with particularly useful properties.”). Without this new rule, downstream and upstream innovators in this case would have benefited from the ability to cross license. Under the new regime, mere improvements will likely invalidate genus patents. The principle of unintended consequences once again counsels against judicial adventurism.

III.

Under this new doctrine, patent applicants will face a difficult burden in discerning proper claiming procedure under this court’s unpredictable written description of the invention requirement. The court talks out of both sides of its mouth as it lays out the test. On the one hand, the test seems to require the fact finder to make a subjective inquiry about what the inventor possessed. Ante at 23. On the other, the court states that the test requires an objective inquiry into the four corners of the specification from the perspective of a person of ordinary skill in the art. But a test becomes no less subjective merely because it asks a fact finder to answer the subjective question objectively. This court still asks the fact finder to imagine what a person of skill in the art would have understood the inventor to have subjectively possessed based on the description in the specification (which of course by definition describes the exact same invention according to this court’s claim construction rules).

The court makes the subjective/objective nature of the test even more confusing by perpetuating the test’s status as a question of fact. Other related, objective inquiries that focus on the four corners of the specification, such as claim construction and

enablement, are questions of law. If the court is right that the written description of the invention test is objective, then either the court misclassifies written description or claim construction and enablement. Moreover, if the test were truly objective, this court would not have such trouble defining it. As it stands, the court's inadequate description of its written description requirement acts as a wildcard on which the court may rely when it faces a patent that it feels is unworthy of protection.

A reading of the statute, on the other hand, supplies a strong enablement test with a neutral, empirical, and predictable test:

Enablement already requires inventors to disclose how to make (reproduce, replicate, manufacture) and how to use the invention (by definition rendering it a "useful art"). Therefore, because the competitor can make the invention, it can then acquire the DNA sequence or any other characteristic whenever it desires. Meantime the competitor can use, exploit, commercialize (outside the patent term) or improve upon and design around (within the patent term) as much of the invention as it cares to make. In other words, the statutory standard for sufficiency of disclosure serves masterfully the values of the patent system.

Enzo, 323 F.3d at 980-81 (Rader, J., dissenting).

In sum, the statute supplies a test for description that has operated marvelously for decades, if not centuries. If this court perceives a need for renewed attention to description requirements, it should strengthen its enablement jurisprudence instead of making new rules. Invention of new technologies strengthens and advances the "useful arts," but invention of new doctrines frustrates and confuses the law.

United States Court of Appeals for the Federal Circuit

2008-1248

ARIAD PHARMACEUTICALS, INC.,
MASSACHUSETTS INSTITUTE OF TECHNOLOGY,
THE WHITEHEAD INSTITUTE FOR BIOMEDICAL RESEARCH,
and THE PRESIDENT AND FELLOWS OF HARVARD COLLEGE,

Plaintiffs-Appellees,

v.

ELI LILLY AND COMPANY,

Defendant-Appellant.

Appeal from the United States District Court for the District of
Massachusetts in Case No. 02-CV-11280, Judge Rya W. Zobel.

LINN, Circuit Judge, with whom RADER, Circuit Judge, joins, dissenting-in-part and concurring-in-part.

The statutory arguments that the majority today enshrines fail to justify establishing a separate written description requirement apart from enablement and beyond the priority context, and fail to tether that written description requirement to a workable legal standard. For these and the reasons that follow, I respectfully dissent from Part I of the majority's opinion, and believe the appeal should have been returned to the panel for resolution of the enablement question. I take no position on the merits of Ariad's compliance with 35 U.S.C. § 112, paragraph 1; however, I concur in the affirmance of no inequitable conduct.

A. The Statutory Language

Like the majority, I start with the parties' statutory interpretations. Ariad insists that "ordinary rules of English grammar" and a "plain reading" of § 112, paragraph 1 show that the description of the invention is judged only by enablement—namely, whether it describes "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." Ariad's Principal Br. 2-3. While Lilly relies less on statutory interpretation, it responds that the text delineates two written description requirements—"of the invention" and "of the manner and process of making and using it"—but that the enablement standard applies only to the latter. Lilly's Br. 27-28. The amici take varying positions on either side of this debate. See Br. of Amicus Roberta Morris 4-9 (parsing statutory text to show no separate written description requirement); Br. of Amicus Christopher Cotropia 17-20 (arguing that a "plain, grammatically correct reading" mandates a distinct standard for written description).

While the parties offer vigorous arguments about the grammar of § 112, paragraph 1, the only reasonable interpretation is the one offered by Ariad, both because it conforms to the long-recognized purpose of the statute in policing new matter violations and because it tethers the "written description of the invention" to an understood standard: "such full, clear, concise, and exact terms so as to enable." Lilly remarks that statutes do not necessarily specify their own tests, and that "the legal standards for applying them are developed by courts over time." Lilly's Br. 28. Although this might be true generally, Congress did provide such a legal standard in this statute, and the majority's creation of a separate, additional requirement—with a poorly

defined standard—is unnecessary and ill advised. In my view, there is no justification for reading the statute, beyond the priority context suggested by 35 U.S.C. § 120, as requiring anything other than a written description sufficient to enable a skilled artisan to make and use the invention particularly pointed out and distinctly recited in the claims.

The enablement requirement provides an established standard for the propriety of the written description offered to support a set of claims. See In re Wands, 858 F.2d 731, 737 (Fed. Cir. 1988) (“The term ‘undue experimentation’ does not appear in the statute, but it is well established that enablement requires that the specification teach those in the art to make and use the invention without undue experimentation.”). The enablement requirement also ensures that the full extent of claims asserted by an applicant have utility, such that the public can make and use the invention recited therein. See In re ’318 Patent Infringement Litig., 583 F.3d 1317, 1323-24 (Fed. Cir. 2009) (“Enablement is closely related to the requirement for utility. . . . The utility requirement prevents mere ideas from being patented.”).

B. The Majority’s Proposed Written Description Test

I credit the majority for acknowledging that the “possession” test “has never been very enlightening” and for attempting to clarify that “possession as shown in the disclosure” should be an “objective inquiry into the four-corners of the specification.” Maj. Op. at 23-24. Yet, given the court’s concern for public notice, the opinion fails to set the boundaries for compliance with its separate written description test. Commentators have noted our use of variable and confusing vocabulary to delineate the test: that the specification demonstrate “possession,” that the inventor “invented what is claimed,” or that a person of ordinary skill be able to “visualize or recognize” the

claimed subject matter. Donald S. Chisum, 3 Chisum on Patents § 7.04[1][e] (2009). Today, the majority confirms the notion that the specification must show that the inventor “actually invented the invention claimed,” Maj. Op. at 23, but then says that “actual ‘possession’ or reduction to practice outside of the specification is not enough,” id. at 25. If the specification’s four corners control—not the inventor’s subjective beliefs or activities—then an “actually invented” standard should be irrelevant. Moreover, § 112, paragraph 2 already requires separately that the claims, once issued, objectively claim “the subject matter which the applicant regards as his invention.” See Solomon v. Kimberly-Clark Corp., 216 F.3d 1372, 1379-80 (Fed. Cir. 2000).

The language that the majority uses to explain “possession as shown in the disclosure” not only fails to justify a separate test, it also fails to distinguish the test for written description from the requirements for enablement. “[T]he level of detail required to satisfy the written description requirement,” according to the majority, “varies depending on the nature and scope of the claims and on the complexity and predictability of the relevant technology.” Maj. Op. at 24. These considerations, however, mirror the Wands factors for enablement, which include “the nature of the invention,” “the breadth of the claims,” and “the predictability or unpredictability of the art.” 858 F.2d at 737. The court attempts to distinguish enablement by observing that “although written description and enablement often rise and fall together, requiring a written description of the invention plays a vital role in curtailing claims that do not require undue experimentation to make and use, and thus satisfy enablement, but that have not been invented, and thus cannot be described.” Maj. Op. at 26 (emphasis added). Yet, if a person of ordinary skill is enabled to make and use a novel and

nonobvious invention clearly recited in the claims, I fail to see how that invention can be said to “have not been invented” or be in need of some undefined level of additional description.

C. Stare Decisis

I cannot accept the majority’s conclusion that the current written description doctrine adopted in Regents of the University of California v. Eli Lilly & Co., 119 F.3d 1559 (Fed. Cir. 1997), was created not by the Federal Circuit in 1997, but by the Supreme Court as early as the 19th century, and therefore carries weighty stare decisis effect. Maj. Op., Parts I.B-C. In my view, Ariad thoroughly refutes these arguments.

First, the history of the Patent Acts does not reveal a separate written description requirement for original claims. Before 1836, the patent statutes did not require patents to contain claims. At that time, a patent’s written description satisfied two requirements: (1) “to distinguish the same [the invention] from all other things before known,” and (2) “to enable any person skilled in the art or science . . . to make, compound, and use the same.” Act of Feb. 27, 1793, 1 Stat. 318, 321-22, ch. 11, § 3. Accordingly, the Supreme Court recognized in Evans v. Eaton that a patent’s written description performed the “two objects” to “make known the manner of constructing the machine . . . so as to enable,” and to “put the public in possession of what the party claims as his own invention.” 20 U.S. 356, 433-34 (1822). Subsequently, the 1836 Act introduced claims to patents by requiring an applicant to “particularly specify and point out the part, improvement, or combination, which he claims as his own invention or discovery,” and simultaneously removed the need for the written description to “distinguish” the invention from “all other things before known.” Act of July 4, 1836, 5 Stat. 117, 119, ch.

357, § 6. Lilly argues that, prior to the 1836 Act, Evans equated “distinguishing” the invention to a modern-day written description requirement. Lilly’s Br. 5. However, Ariad correctly points out that Lilly mistakenly cites the reported attorney argument for that proposition, not the Court’s opinion. Ariad’s Reply Br. 8. More importantly, even if Lilly were correct that the Supreme Court previously enforced a quasi-written description requirement, with the advent of patent claims after Evans, a patent’s written description no longer served to “distinguish” the invention from the prior art.

Despite this statutory background, the majority accepts Lilly’s characterization of post-1836 precedent to conclude that “after the 1836 Act added the requirement for claims, the Supreme Court applied this description requirement separate from enablement.” Maj. Op. at 11. For example, the majority and Lilly rely on Schriber-Schroth Co. v. Cleveland Trust Co., 305 U.S. 47 (1938), which dealt with two patents to Gulick and Maynard for pistons in internal combustion engines. Gulick described “extremely rigid” web elements in the pistons in his original application, but later amended the application to include “flexible” webs. Id. at 56. While Maynard did not amend his application, flexible webs were “neither described in Maynard’s specifications nor mentioned in his claims.” Id. at 60. The Court held that neither patent could claim flexible web elements because neither disclosed that feature.

The majority claims: “Although the [Schriber] Court did not expressly state that it was applying a description of the invention requirement separate from enablement, that is exactly what the Court did.” Maj. Op. at 13; see also Lilly’s Br. 11-14. But the Court rejected Gulick’s amended claims because they expanded his original disclosure to encompass “new matter beyond the scope of the device described in the application as

filed.” Schriber, 305 U.S. at 58 (emphasis added). The Court also stressed that “the application for a patent cannot be broadened by amendment so as to embrace an invention not described in the application as filed.” Id. at 57. Thus, Schriber required that the invention be “described and explained,” id., but did so to establish priority.

The majority also rests on O’Reilly v. Morse, 56 U.S. (15 How.) 62, 120 (1854), where the Supreme Court invalidated one of Samuel Morse’s telegraphy-related claims for claiming “what he has not described.” Maj. Op. at 13 n.4. Lilly cites passages from Morse and highlights every instance of the words “description” or “described.” Lilly’s Br. 8. However, this places too much stock in these words and assumes that “describes” meant in 1854 what the majority would like it to mean today. Morse’s description was deficient because it did not enable the full scope of his broadest claim (to all possible electrical telegraphs), not because it failed the equivalent of a present-day “possession” test for written description.

The majority also suggests that the Supreme Court ratified our current written description doctrine in Festo Corp. v Shoketsu Kinzoku Kogyo Kabushiki Co., 535 U.S. 722 (2002). But that decision addressed the scope of prosecution history estoppel under the doctrine of equivalents. The extent of the Court’s allusion to written description is a recitation that applications must “describe, enable, and set forth the best mode,” and that “exclusive patent rights are given in exchange for disclosing the invention to the public.” Id. at 736. Neither of these statements is a holding that written description applies to originally filed claims, or even that enablement is not the sole measure of disclosure. With all due respect, characterizing Festo as an endorsement of modern written description is at best misplaced.

Until our 1997 decision in Lilly, we applied a written description doctrine from § 112, paragraph 1 to control patent applicants' claims to priority, but not to invalidate originally filed claims, and without any perceived inconsistency with the statute. E.g., In re Rasmussen, 650 F.2d 1212, 1214 (CCPA 1981) ("The proper basis for rejection of a claim amended to recite elements thought to be without support in the original disclosure, therefore, is § 112, first paragraph"). Only since Lilly have we forced original claims over a description hurdle extending beyond enablement.

D. Original Claims

In addition to rejecting the majority's precedent-based arguments, I part ways with the majority's policy justifications for applying written description to original claims. The majority accepts Lilly's argument that, "while an original claim is part of the specification, this fact does not mean that original claims must always be an adequate written description of the invention." Lilly's Br. 35. This debate is not new. See Univ. of Rochester v. G.D. Searle & Co., 375 F.3d 1303, 1307 (Fed. Cir. 2004) (Lourie, J., concurring) ("Thus, the fact that a statement of an invention is in an original claim does not necessarily end all inquiry as to the satisfaction of the written description requirement."). However, the policy reasons for applying such a requirement to original claims remain unconvincing.

It is beyond dispute that original claims are part of a patent's disclosure. See id. (Lourie, J., concurring) ("As for the proposition that an original claim is part of the written description, that is clear."). And our predecessor court repeatedly held that, as part of the disclosure, "original claims constitute their own description." In re Kollar, 613 F.2d 819, 823 (CCPA 1980); see also In re Smith, 481 F.2d 910, 914 (CCPA 1973) ("Where

the claim is an original claim, the underlying concept of insuring disclosure as of the filing date is satisfied, and the description requirement has likewise been held to be satisfied.”); In re Gardner, 475 F.2d 1389, 1391 (CCPA 1973) (holding that an original claim sufficiently described itself, and that “[n]othing more is necessary for compliance with the description requirement of the first paragraph of 35 U.S.C. § 112”), reh’g denied, 480 F.2d 879, 879-80 (CCPA 1973) (“Under these circumstances, we consider the original claim in itself adequate ‘written description’ of the claimed invention.”). Thus, as I have said before, “[f]or original claims, . . . the claim itself evidenc[es] possession of the invention as of the filing date.” Enzo Biochem, Inc. v. Gen-Probe Inc., 323 F.3d 956, 988 (Fed. Cir. 2002) (Linn, J., dissenting).

It is inconsistent to say that on its filing date, a patent does not show that the inventor “possessed” subject matter that the claims actually encompass and the specification fully enables. Doing so perpetuates an unnecessary tension between the claims and the written description as the definition of a patented invention. See 35 U.S.C. § 112, para. 2 (requiring claims “particularly pointing out and distinctly claiming the subject matter”); Aro Mfg. Co. v. Convertible Top Replacement Co., 365 U.S. 336, 339 (1961) (observing that “the claims made in the patent are the sole measure of the grant”). Indeed, the majority reinforces the confusing notion that the primary purpose of claims is “to provide notice of the boundaries of the right to exclude . . . not to describe the invention.” Maj. Op. at 15; cf. Br. of Amicus Oskar Liivak 15 (“The claims are not the invention as a logical, conceptual and practical matter.”). Again, since the 1836 Patent Act, claims have served the purpose of “distinguishing” the invention, while the specification as a whole must “enable.”

The fear that even original claims might “claim[] the invention by what it does rather than what it is,” Lilly’s Br. 35, is unfounded because all claims must satisfy enablement and other requirements for patentability. The majority agrees that “many original claims will satisfy the written description requirement,” but expresses concern that applicants may use “functional language to define the boundaries of a claimed genus,” without disclosing “species sufficient to support a claim.” Maj. Op. at 19. I agree that such claims should be invalid—but enablement polices those claims effectively. Any claim that uses purely functional language, or covers a broad genus without sufficient supporting examples, will not be enabled. E.g., In re Vaeck, 947 F.2d 488, 495-96 (Fed. Cir. 1991) (affirming enablement rejection of genus claims).

Lilly and several amici caution that the written description doctrine protects the public by requiring patentees to provide specific notice of the scope of their inventions. See, e.g., Br. of Amicus Medtronic, Inc. 11-12. This concern is also misplaced. Generally, under 35 U.S.C. § 122(b), patent applications publish eighteen months “from the earliest filing date for which a benefit is sought.” Therefore, the public receives notice of original claims within a specified time. See Br. of Amicus Monsanto Co. 8 (“Regardless of its breadth, the language of an original claim puts skilled artisans on notice that the inventor is claiming such subject matter as the inventor’s own invention.”). Even if the application does not publish before the patent issues, the original claims remain part of the public prosecution history and notify the public of the invention’s scope.

The government submitted an amicus brief in which it asserted that the written description doctrine is “necessary to permit USPTO to perform its basic examination

function” and claimed that the Patent Office applies § 112, paragraph 1 to over “400,000 patent applications each year.” Br. of Amicus United States 19-20. However, at oral argument the government could not cite the number of applications that the PTO annually rejects on written description grounds and cannot reject on another basis. See Oral Arg. at 22:42-24:50. The government also agreed that “enablement is available to address a large number of these problems.” Id. at 28:01-32. Indeed, a study released after argument that reviewed over 2800 appeals to the Board of Patent Appeals and Interferences (“BPAI”) during 2009 found that only 4.3% of those cases decided written description issues, and that none of those outcomes would change if the PTO could continue to issue new matter rejections under 35 U.S.C. § 132. Dennis D. Crouch, An Empirical Study of the Role of the Written Description Requirement in Patent Prosecution 2 (Univ. of Mo. Sch. of Law Legal Studies Research Paper No. 2010-06, 2010), available at <http://ssrn.com/abstract=1554949>. The study concludes that, “in the context of patent applications appealed to the BPAI, the impact of the separate written description requirement is negligible apart from its role in policing the addition of new matter.” Id. at 3. While this research only addressed a small sample of applications and did not consider written description rejections that applicants overcome or do not appeal, these results and the government’s lack of empirical evidence undermine the government’s hypothesis that our patent examination system would grind to a halt if written description no longer applies to originally filed claims. The Patent Office survived well enough before 1997, when it was understood that written description was a basis for rejecting broadening amendments to claims or specifications, not original claims. See Rasmussen, 650 F.2d at 1214.

* * *

The court granted the petition for rehearing in this case to address whether § 112, paragraph 1 contains a written description requirement separate from an enablement requirement and, if so, the scope and purpose of such a requirement. In affirming such requirement, the majority leaves unanswered once again the critical question first presented to the panel of whether the asserted claims of the '516 patent meet the enablement requirement. In my view, the question before the en banc court should have been answered in the negative and the appeal returned to the panel for resolution of the enablement question and Lilly's remaining invalidity and noninfringement defenses. I concur, however, in the majority's reinstatement of the panel's affirmance of no inequitable conduct. For these reasons, I respectfully dissent from Part I of the majority opinion, concur in the ruling of no inequitable conduct, and take no position on the merits of Ariad's compliance with 35 U.S.C. § 112, paragraph 1.

United States Court of Appeals for the Federal Circuit

2008-1368, -1396

BLACKBOARD, INC.,

Plaintiff-Cross Appellant,

v.

DESIRE2LEARN INC.,

Defendant-Appellant.

2008-1548

BLACKBOARD, INC.,

Plaintiff-Appellant,

v.

DESIRE2LEARN INC.,

Defendant-Appellee.

Joel M. Freed and Michael S. Nadel, McDermott Will & Emery LLP, of Washington, DC, argued for plaintiff-cross appellant in appeal 2008-1368,-1396 and plaintiff-appellant in appeal 2008-1548. Of counsel in appeal 2008-1368,-1396 was Natalia V. Blinkova.

Harold C. Wegner, Foley & Lardner LLP, of Washington, DC, argued for defendant-appellant in appeal 2008-1368,-1396. On the brief were George E. Quillin; and Gregory S. Norrod, James D. Dasso, and Jonathan R. Spivey, of Chicago, Illinois.

George E. Quillin, Foley & Lardner LLP, of Washington, DC, argued for defendant-appellee in appeal 2008-1548. With him on the brief were Gregory S. Norrod, James D. Dasso, Jonathan R. Spivey, and Jason A. Keener, of Chicago, Illinois. Of counsel was Harold C. Wegner, of Chicago, Illinois.

Appealed from: United States District Court for the Eastern District of Texas

Judge Ron Clark

United States Court of Appeals for the Federal Circuit

2008-1368,-1396

BLACKBOARD, INC.,

Plaintiff-Cross Appellant,

v.

DESIRE2LEARN, INC.,

Defendant-Appellant.

Appeal from the United States District Court for the Eastern District of Texas
in case no. 9:06-CV-155, Judge Ron Clark.

2008-1548

BLACKBOARD, INC.,

Plaintiff Appellant,

v.

DESIRE2LEARN, INC.,

Defendant-Appellee.

Appeal from the United States District Court for the Eastern District of Texas
in case no. 9:06-CV-155, Judge Ron Clark.

DECIDED: July 27, 2009

Before BRYSON and MOORE, Circuit Judges, and CUDAHY, Senior Circuit Judge.^{*}
BRYSON, Circuit Judge.

Blackboard Inc. is the market leader in providing educational institutions with course management software that allows interaction between students and teachers over the Internet. Desire2Learn Inc. is Blackboard's primary commercial competitor. This appeal arises from an action by Blackboard against Desire2Learn for infringement of Blackboard's U.S. Patent No. 6,988,138 ("the '138 patent"), which claims an Internet-based educational support system and related methods.

The '138 patent is not the inventors' first work in the field of education-support software. In 1996, while they were college students, several of the same inventors developed a software product called CourseInfo 1.5, which allowed for online management of information relating to individual courses. In the CourseInfo system, each course had its own website, and students and instructors would log in to each course separately. In 1999, the inventors merged their company with Blackboard. Another prior art course management system, which was available by 1997, is the Serf system, developed by a professor at the University of Delaware. Like CourseInfo 1.5, the Serf system provided a way for students and teachers to interact through the Internet.

Upon issuance of the '138 patent, Blackboard filed an infringement action against Desire2Learn in the United States District Court for the Eastern District of Texas. After a Markman hearing, the district court entered partial summary judgment for

^{*} The Honorable Richard D. Cudahy, Senior Circuit Judge, United States Court of Appeals for the Seventh Circuit, sitting by designation.

Desire2Learn, holding claims 1-35 of the patent invalid for indefiniteness. The court then conducted a jury trial that addressed whether Desire2Learn had infringed claims 36-38 of the patent; Desire2Learn asserted by way of defense that those claims were anticipated and would have been obvious in light of prior art that predated the patent's priority date of 1999.

An important issue at trial was whether the asserted claims of the '138 patent required that a person using the claimed method be able to use a "single login" to access multiple courses and multiple roles in those courses. Blackboard touted its method as allowing a person to use a single login to obtain access to all the courses of interest to that person and to obtain different levels of access to the course materials depending on that person's role in each course. For example, Blackboard asserted that its claimed method would allow a graduate student who was a student in one course and a teacher in another to use a single login to obtain access to both courses and to obtain access to the materials for each course according to the graduate student's role in each.

At trial, Blackboard took the position that the method of claims 36-38 required that the user have the capacity to access multiple courses and multiple roles through a single login. Desire2Learn took the position that Blackboard's claims did not require such access through a single login, and that the claims were therefore invalid in light of the prior art. The jury found that claims 36-38 were neither anticipated nor obvious, and that Desire2Learn had infringed those claims.

Desire2Learn then filed motions for judgment as a matter of law ("JMOL"), contending that claims 36-38 were invalid for both anticipation and obviousness. The

court denied the motions. In so doing, the court agreed with Blackboard that the asserted claims required that the recited method permit access to multiple courses and roles through a single login.

In appeal No. 2008-1368, Desire2Learn argues that claims 36-38 are invalid in light of the prior art and that its system does not infringe those claims. In appeal No. 2008-1396, Blackboard cross-appeals from the district court's ruling, on summary judgment, that claims 1-35 are indefinite. In a separate appeal, No. 2008-1548, Blackboard appeals from the district court's denial of an award of costs related to certain discovery expenses.

I

Desire2Learn argues that two prior art references anticipate claims 36-38 as a matter of law. That argument turns on whether those claims contain a "single login" limitation. Blackboard asserts that the "single login" feature is the '138 patent's essential improvement over the prior art and is a part of every claim of the patent. According to Blackboard, under the prior art systems "[a] person could not be a student in one course and a teacher in another using one user name and password," whereas the '138 patent enables a person "to access all his roles in all his courses at once. With a single login and password, a person could be a student in one course and a teacher in another during one interaction with the system."

Independent claim 36 provides:

An [sic] method for providing online education method [sic] for a community of users in a network based system comprising the steps of:
a. establishing that each user is capable of having redefined [sic: "predefined"] characteristics indicative of multiple predetermined roles in the system and each role providing a level of access to and control of a plurality of course files;

- b. establishing a course to be offered online, comprising
 - i. generating a set of course files for use with teaching a course;
 - ii. transferring the course files to a server computer for storage; and
 - iii. allowing access to and control of the course files according to the established roles for the users according to step (a);
- c. providing a predetermined level of access and control over the network to the course files to users with an established role as a student user enrolled in the course; and
- d. providing a predetermined level of access and control over the network to the course files to users with an established role other than a student user enrolled in the course.

Claims 37 and 38 add further limitations that are not the principal focus of this appeal.

Claim 37 provides:

The method of claim 36 wherein at least one of the course files comprises a course assignment, further comprising the steps of:

- e) the student user creating a student file in response to the course assignment; and
- f) the student user transferring the student file to the server computer.

Claim 38 provides:

The method of claim 37 further comprising the steps of:

- g) the instructor user accessing the student file from the server computer;
- h) the instructor user reviewing the student file to determine compliance with the course assignment; and
- i) the instructor user assigning a grade to the student file as a function of the determination of compliance with the course assignment.

Blackboard makes several arguments in support of its contention that claims 36-38 require a person using the claimed method to be able to access multiple roles in multiple courses using a single login. First, Blackboard argues that the definition of the term “user” requires that access to multiple roles in multiple courses be achievable through a single login. Blackboard’s argument is that the term “user” refers to an electronic user account, and that a user account is defined by a single user name and password combination; accordingly, for a “user” to be capable of “having predefined

characteristics indicative of multiple predetermined roles in the system” requires that the method allow access to multiple courses and roles through a single login.

In support of its definitional argument, Blackboard points out that the specification sometimes uses the word “user” in a manner that appears to refer to the electronic representation of a person in the system. The references to which Blackboard alludes employ a kind of shorthand, such as “Create User” and “Manage User,” to describe the creation and manipulation of user entries and accounts, not the creation and manipulation of “users” themselves. For example, the “Create User” web page “allows creation of a user entry by entering personal information” and the “Manage User” web page “allows listing, modification, and/or removal of users” once “a user is created.” ’138 patent, col. 27, ll. 14-26.

Aside from those shorthand references, the specification repeatedly employs the term “user” in its ordinary sense to refer to an individual who uses the system. For example, the specification states: “Users (who may have one or several roles such as a student, instructor, teaching assistant (TA), or administrator) access and interact with education support system 100 via web browser 120.” ’138 patent, col. 7, ll. 58-61. See also, e.g., id., col. 3, ll. 26-28 (claimed system and methods “allow users to interact with a computer network-based education support system through means of a simplified, easy-to-use user interface”); id., col. 3, ll. 43-46 (claimed system “allows multiple types of users to access the features of the system as a function of their predefined role within the framework of the system (e.g., student, teacher, administrator)”); id., col. 4, ll. 19-20 (“The student user is provided with an access level to enable reading of course files associated with a course.”); id., col. 5, ll. 39-46 (“[T]he student user creates a student

file The instructor user accesses the student file . . . and the instructor user assigns a grade to the student file”). Thus, the specification makes clear that the word “user” refers to a flesh-and-blood person and not an electronic representation of that person.¹ In addition, the word “user” as employed in the claims is inconsistent with Blackboard’s interpretation of “user” as referring to a “user account.” For example, claim 1 refers to a “community of users,” “user computers,” and a “user of the system.” Id., col. 30, ll. 19-22. Those uses clearly refer to a person rather than to an account. The use of the term “user” in claims 36-38 therefore does not establish that a single electronic account must be capable of providing access to multiple roles and courses through a single login.

Blackboard next contends that the phrase “capable of having predefined characteristics indicative of multiple predetermined roles in the system” in claim 36 requires that the claimed method include the “single login” capacity. As support for that argument, Blackboard notes that “the specification describes a user having the capability of assuming the ‘several’ or multiply assigned roles in the system.” Blackboard also points out that the word “mixed” is used in the specification to indicate that a single user can have different roles with respect to different courses.

Blackboard’s argument is answered by a close examination of the specification, which makes clear that the “single login” limitation is not present in each of the patent’s claims. To begin with, the specification describes four embodiments of the invention,

¹ When the ’138 patent refers to the electronic representation of the user in the specification, it typically uses the term “user account,” not the term “user” alone. See ’138 patent, col. 5, ll. 20-23; col. 22, ll. 3, 9; col. 26, line 23.

only one of which is described as containing the “single log-in” feature. ’138 patent, col. 10, line 62, through col. 11, line 59. Another of the four embodiments is described as being “operated as a publicly available web site on the Internet, that may be accessed by anyone”; it allows “anyone on the web [to] create a course, enroll in a public course, etc. This provides for widespread dissemination of tools and utilities that enable anyone to generate his own course that can be taken by virtually any student.” Id., col. 11, ll. 51-59. That description of the Internet-based embodiment nowhere suggests that the embodiment necessarily incorporates the “single log-in” feature.

Perhaps the strongest evidence that the single login feature is not a required limitation of claim 36 is provided by an examination of the relationship between claim 1 of the ’138 patent and its dependent claims, claims 24 and 25. Claim 1 contains language that is identical to the language on which Blackboard relies in claim 36. Claim 1 provides, in part:

- A course-based system for providing to an educational community of users access to a plurality of online courses, comprising:
- a) a plurality of user computers, with each user computer being associated with a user of the system and with each user being capable of having predefined characteristics indicative of multiple predetermined roles in the system, each role

Claims 24 and 25 depend from claim 1. They provide:

24. The system of claim 1 wherein a user is required to enter a login sequence into a user computer in order to be provided with access to course files associated with that user.
25. The system of claim 24 wherein the user is provided with access to all courses with which the user is associated after entry of the logon sequence.

Claim 24 adds to claim 1 the requirement that the user enter a login sequence in order to obtain access to course files, and claim 25 adds the further requirement that,

after a single login, the user be provided with access to all of the course files and courses with which that user is associated. Yet the single login requirement is the very limitation that Blackboard asserts is inherently contained in the phrase “capable of having predefined characteristics indicative of multiple predetermined roles in the system” that appears in the claim from which claim 25 depends. Thus, claim 1 cannot be construed to afford access to all courses with a single login without making claim 25 redundant. That is powerful evidence that claim 36, which contains the same pertinent language as claim 1 (“capable of having predefined characteristics indicative of multiple predetermined roles in the system”), also does not require access to all courses with a single login. See Phillips v. AWH Corp., 415 F.3d 1303, 1315 (Fed. Cir. 2005) (en banc) (“[T]he presence of a dependent claim that adds a particular limitation gives rise to a presumption that the limitation in question is not present in the independent claim.”); Yoon Ja Kim v. ConAgra Foods, Inc., 465 F.3d 1312, 1319 (Fed. Cir. 2006) (independent claim ordinarily does not include explicit limitations of a dependent claim); Versa Corp. v. Ag-Bag Int’l Ltd., 392 F.3d 1325, 1330 (Fed. Cir. 2004) (independent claim should not be construed in a manner that renders dependent claim superfluous).

Significantly, the specification states that a user “may be required to enter a login sequence into a user computer in order to be provided with access to course files associated with that user,” and it adds that in such a case, the user “is then provided with access to all courses with which the user is associated after entry of the logon sequence.” ’138 patent, col. 4, ll. 52-56. That passage tracks the language of claims 24 and 25, and it is introduced by the phrase “may be required,” which provides further

support for Desire2Learn's argument that the "single login" capacity is an optional feature of the claimed invention, not a limitation inherently found in all the claims.

Blackboard's third argument for why the claims require that a user have access to multiple courses through a single login is based on the language "according to the established roles for the users according to step (a)," which is found in step (b)(iii) of claim 36. The quoted language, however, does not support Blackboard's argument. While claim 36 requires that the method be capable of assigning multiple roles to a single user, nothing in the claim requires each user to gain access to all of those multiple roles with a single login. To the contrary, the most natural reading of the claim language is that access and control is provided according to the various roles a user might have, not that the user must be able to obtain access to those multiple roles with a single login.

Blackboard next invokes the prosecution history of the '138 patent, and in particular the examiner's somewhat cryptic remarks in two interview summaries concerning the "multiple roles" limitation. Referring to the applicant's distinction of two prior art references, the examiner stated that the references appeared not to "disclose multiple roles simultaneously associated with a particular system user," and that "multiple roles for user(s) was emphasized as a potential distinguishing feature [of the application]." Contrary to Blackboard's characterization, the examiner's statements appear to refer to enabling users to have multiple roles rather than a single role. The comments do not appear to refer to the capability of accessing these multiple roles after a single login. There is no dispute that the claims provide for multiple roles. Rather, the issue is whether those roles must be available after a single login. The examiner's

remarks did not even address this “single login” issue. Nor did the amendments that the applicants made to the claims during prosecution clearly provide that the claimed method had to have the capacity to allow access to multiple courses through a single login. The prosecution history thus does not provide support for Blackboard’s contention that the single login feature was a necessary limitation of claims 36-38.

Finally, Blackboard contends that Desire2Learn waived the argument it is now making as to the proper construction of claims 36-38 and therefore has lost the right to challenge the validity of those claims on the ground that they do not incorporate a “single login” requirement. The question of waiver is a difficult one in this case because Desire2Learn did not consistently and clearly present its current argument about the absence of the “single login” requirement throughout the proceedings before the district court. Nonetheless, after close examination of the trial proceedings, we conclude that Desire2Learn made its present argument with sufficient timeliness and clarity that it should not be charged with having waived its validity challenge; for the reasons set forth in more detail below, we therefore reject Blackboard’s several waiver arguments.

Blackboard argues that the position Desire2Learn’s counsel took during a colloquy at the Markman hearing was inconsistent with Desire2Learn’s current position, and that Desire2Learn should therefore be charged with having waived its argument as to the “single login” limitation. While it is true that Desire2Learn’s counsel at one point in the Markman hearing took a position different from the position Desire2Learn later took at trial, the trial court did not rely on Desire2Learn’s position in construing the claim, but instead construed the claim language in a manner different from the construction proposed by either party.

The dispute at trial over the “single login” issue arose from the trial court’s construction of the term “user.” In an order entered shortly before trial, the court rejected both parties’ proposed constructions of that term. Blackboard proposed that “user” be defined to mean “the user’s identity or account in the system,” while Desire2Learn proposed that “user” be defined to mean “a physical user that interacts with the system.” The court defined the term to mean “a person who interacts with the system and who accesses the system by logging on with a user name and password, and then keys in information.”

At trial, Blackboard’s expert testified that under the court’s definition, “a physical person is going to access the system by logging on with a single user name and password.” Desire2Learn objected that a single login was not part of the court’s construction. Later, Desire2Learn objected again when the expert testified that the ’138 patent “provid[es] the mechanism by which a single user can have multiple roles in multiple courses on a single logon.”

On rebuttal, Blackboard’s expert again testified that the court’s definition of the term “user” required that a user be able to obtain access to multiple courses with a single login. Desire2Learn again objected, arguing that Blackboard was improperly “taking the court’s construction and now confining it to a single user name and password when the court’s construction does not do that.” The trial court overruled the objection and allowed the testimony. Under the circumstances, we believe Desire2Learn made its position on that issue clear sufficiently in time to not mislead its adversary or the court, and that counsel’s remarks at the Markman hearing did not waive that argument.

Blackboard separately argues that Desire2Learn waived its “single login” argument by acquiescing in the trial court’s instruction in response to a question from the jury at trial. The events at trial developed as follows: During deliberations, the jury sent the court a question in which it asked, “In your definition, does using ‘a’ user name and password = single logon?” Counsel for Desire2Learn urged the court to respond to the jurors’ question by telling them that a single login capacity was not required by claim 36. Counsel for Blackboard argued that the court should tell the jurors that single login capacity was required. The court resisted altering the instructions that had already been given and proposed to instruct the jury that it should consult the instructions the court had already provided. At that point, Desire2Learn suggested a minor modification in the court’s instruction, which the court declined to accept. The court then instructed the jury as follows: “The court has provided definitions that you must use. Please refer to the jury instructions for guidance as to the meaning of words that are not specifically defined.” Although Blackboard argues that Desire2Learn waived its validity arguments by acquiescing in the substance of the court’s answer to the jury’s question, we disagree. Desire2Learn made its legal position with respect to the “single login” requirement sufficiently clear to the trial court, and the trial court made clear that it was not going to instruct the jury in accordance with Desire2Learn’s position. Desire2Learn’s subsequent further minor suggestion regarding the court’s answer to the jury’s question did not constitute an abandonment of its previously stated substantive objection.

After the jury returned its verdict, which included a finding that claim 36 was not invalid, Desire2Learn filed a motion for JMOL. The court denied the motion. In so

doing, the court made clear that it interpreted claim 36 as incorporating a “single login” limitation, i.e., the capacity to access multiple courses and roles through a single login.

The court explained:

The remainder of step (a) of Claim 36 describes allowing that “person” with that “user name and password” to have “multiple roles” with access to “a plurality of course files.” This is what Blackboard described as giving a single user access to multiple roles and multiple courses with a single login.

We do not interpret the sequence of events surrounding the jury’s question and the court’s JMOL decision as constituting a waiver of Desire2Learn’s position with respect to the “single login” issue or its right to challenge the jury’s verdict in a post-trial JMOL motion. Desire2Learn made its legal position with respect to the “single login” requirement sufficiently clear to the trial court, and the trial court, in its JMOL opinion, made it clear that it rejected Desire2Learn’s position.

We therefore reject Blackboard’s argument that Desire2Learn waived its right to challenge the construction of claims 36-38 of the ’138 patent. On the merits, we hold that those claims do not contain a “single login” limitation and that the district court’s contrary interpretation of the claim language in its JMOL ruling was error.

II

Desire2Learn argues that if claims 36-38 of the ’138 patent do not require that a person using the claimed method be able to access multiple roles in multiple courses using a single login, then the claims are anticipated and rendered obvious by two references in the prior art, CourseInfo 1.5 and Serf.

At the outset, Blackboard argues that Desire2Learn waived its right to file a JMOL motion as to obviousness because it failed to make a sufficient motion for JMOL

during trial to preserve its right to make a JMOL motion after trial. See Fed. R. Civ. P. 50(a). Curiously, Blackboard argued in its brief that Desire2Learn waived its obviousness argument, but it did not argue that the waiver applied to Desire2Learn's anticipation argument, even though Desire2Learn's motions with respect to both issues were essentially identical. In any event, we hold that under governing Fifth Circuit precedents Desire2Learn's Rule 50(a) motions on both anticipation and obviousness were sufficient to preserve Desire2Learn's right to make a JMOL motion after trial.

Rule 50(a)(2) requires the moving party, when moving for JMOL before the case is submitted to the jury, to "specify the judgment sought and the law and the facts that entitle the movant to the judgment." In this case, Desire2Learn made its motion under Rule 50(a) for judgment on both anticipation and obviousness, but immediately after counsel stated the subject matter of each motion, the district court responded, "I will take that under—I will reserve my ruling on that" (as to anticipation), and "I will reserve my ruling on that" (as to obviousness).

Although Desire2Learn's motions were cursory, the context in which the motions were made, including the district judge's prompt statement that he would take both motions under advisement, make clear that no more was necessary to serve the purposes of Rule 50(a), i.e., to alert the court to the party's legal position and to put the opposing party on notice of the moving party's position as to the insufficiency of the evidence. See MacArthur v. Univ. of Tex. Health Ctr., 45 F.3d 890, 897 (5th Cir. 1995). That is particularly true in light of the Fifth Circuit's practice of liberally construing the rule. See Navigant Consulting, Inc. v. Wilkinson, 508 F.3d 277, 288-89 (5th Cir. 2007). The motion in this case was made shortly after an extended discussion of the evidence

relating to anticipation and obviousness, and it is clear from the context that neither the court nor Blackboard's attorneys needed any more enlightenment about Desire2Learn's position on those issues. See Guilbeau v. W.W. Henry Co., 85 F.3d 1149, 1160-61 (5th Cir. 1996).

On the merits, we agree with Desire2Learn that claims 36-38, as properly construed, are invalid for anticipation as a matter of law by CourseInfo 1.5 and Serf. As Desire2Learn points out, Blackboard's trial expert identified only one difference between the system and methods of the '138 patent and the prior art systems, the "single login":

Q. Now, is that different from the prior art, doctor?

A. Yes, it is. The prior art that we talked about before, the CourseInfo 1.5 and Serf, those systems, a user had to have a login for each one of the roles. So, for example, in Serf, as we saw from [its inventor], if a user wanted to be a student in one course and an instructor in another, that user was going to require two separate logins. That was the old way The patent describes the new way.

Q. And the new way is a user logs on with a user name and password and gets access to all of their roles in all of their courses?

A. That's correct.

Q. And that's the new way in this invention?

A. Yes, it is. That's the new way in the Blackboard patent.

The expert added that he concluded that Serf did not teach all the steps of claim 36 because the "single login" feature was not present in Serf.

Blackboard asserts that in addition to the absence of a "single login" capacity, there is another difference between the prior art systems and the patent claims at issue. According to Blackboard, the prior art references do not allow a user to have access to "multiply assigned" roles, such as that of a student and a non-student, as required by steps (c) and (d) of claim 36. The district court construed the phrase "establishing that each user is capable of having predefined characteristics indicative of multiple predetermined roles in the system" to mean "establishing that discrete roles and their

associated characteristics to which a user can be multiply assigned are set in advance within the system.” That construction requires the capability to assign multiple roles to a single user. The prior art systems clearly enable that capability; for example, under the prior art systems a single user can create two accounts, one as an instructor and another as a student.

The Serf Administrator Guide also discloses that users who are assigned to the roles of student and non-student have access to and control over course files. Blackboard’s only argument for why the discussion in the Serf guide does not anticipate claim 36 is that Serf does not teach that multiple courses are “available during a single access.” As we have held, however, claim 36 does not contain a “single login” limitation. Therefore, Serf’s teaching that a single user can access multiple roles, even if it required the user to do so through separate logins, anticipates claim 36 of the ’138 patent.

CourseInfo 1.5 also anticipates claim 36. CourseInfo provided “multiply assigned” roles by allowing a student or an instructor to create different logins for different courses. Although it required separate logins, CourseInfo allowed a user to have access to multiple courses and multiple roles. There was nothing to prevent a single user from entering the system as an instructor in one course and a student in another. The users would be assigned discrete roles that were set in advance, thus satisfying all the limitations of claim 36.

With respect to the limitations of steps (c) and (d) of claim 36, the CourseInfo manual specifically demonstrates how to predetermine a level of access and control

both for student and non-student users. For example, the manual specifies that “a professor will have access to the overall grade book while the student will not.”

The inventors of the '138 patent conceded at trial that in CourseInfo both instructor and student users could perform the limitations described in dependent claims 37 and 38, thus meeting those claims' limitations. Claim 37 adds the requirement that the student user create a student file in response to the course assignment and transfer the student file to the server computer. Claim 38 adds the requirement that the instructor user access the student file from the server computer, review the student file to determine compliance with the course assignment, and assign a grade to the student file.

One of the inventors of CourseInfo and the '138 patent acknowledged that the additional limitations found in claims 37 and 38 were performed by the CourseInfo prior art:

Q. Isn't it true . . . that CourseInfo ILN 1.5 allowed a user to put any files, such as an assignment file, in a particular area throughout the system?

A. Yes. The CourseInfo 1.5 product allowed the instructor to place in a document or an assignment, as you said, anywhere within specific areas, not any area, within the system.

Q. And isn't it true that CourseInfo ILN 1.5 allowed the creation of a new document, say a student was responding to a test that was posted up by an instructor?

A. Yes, it did allow for that capability.

Q. And isn't it true that CourseInfo ILN 1.5 allowed the user, after responding to the test, to then post that answer back to the file area such that the instructor could view it?

A. Yes, it did have that capability, as well.

Q. And isn't it true that CourseInfo ILN 1.5 then allowed the instructor to grade the student's responses to the test?

A. Yes, I believe it did have that functionality.

In an effort to support the judgment in its favor, Blackboard relies on the district court's observation that Desire2Learn's expert witness on invalidity was ineffective at

trial. Based on the court's observation, Blackboard contends that the jury was entitled to ignore the expert's testimony in its entirety. However, it is not necessary to rely on the testimony of Desire2Learn's witness to conclude that claims 36-38 are invalid. Instead, once the claims are properly construed, the conclusion of anticipation is dictated by the testimony of Blackboard's own witnesses and the documentary evidence that was presented to the jury. Based on that evidence, and in the absence of a "single login" requirement in claims 36-38, it is clear that the prior art contains every limitation of those claims.

III

In its cross-appeal, Blackboard challenges the district court's ruling that claims 1-35 of the '138 patent are invalid for indefiniteness. The district court held that the specification contained insufficient structure to support one of the means-plus-function limitations found in claim 1 and, by incorporation, in dependent claims 2-35. Blackboard does not contest the district court's ruling that claims 1-35 all rise and fall together.

Limitation (b) of claim 1 contains four "means-plus-function" clauses. It provides:

- b) a server computer in communication with each of the user computers over a network, the server computer comprising:
 - means for storing a plurality of data files associated with a course,
 - means for assigning a level of access to and control of each data file based on a user of the system's predetermined role in a course;
 - means for determining whether access to a data file associated with the course is authorized;
 - means for allowing access to and control of the data file associated with the course if authorization is granted based on the access level of the user of the system.

Because that limitation is written in "means-plus-function" form, it covers only "the corresponding structure . . . described in the specification and equivalents thereof." 35 U.S.C. § 112, ¶ 6.

Before the district court, Blackboard asserted that the structure that performs the recited “means for assigning” function is “a server computer with an access control manager and equivalents thereof.” On appeal, Blackboard again argues that the structure that performs that recited function is the server computer’s software feature known as the “access control manager” or “ACM.” The entirety of the description of the access control manager in the specification is contained in a single paragraph, which reads as follows:

Access control manager 151 creates an access control list (ACL) for one or more subsystems in response to a request from a subsystem to have its resources protected through adherence to an ACL. Education support system 100 provides multiple levels of access restrictions to enable different types of users to effectively interact with the system (e.g. access web pages, upload or download files, view grade information) while preserving confidentiality of information.

The district court found the disclosure of structure described in that paragraph to be inadequate to satisfy section 112, paragraph 6, as it failed to describe “how the levels themselves are assigned to the data files in the first place.”

It is well settled that “if one employs means-plus-function language in a claim, one must set forth in the specification an adequate disclosure showing what is meant by that language.” In re Donaldson Co., 16 F.3d 1189, 1195 (Fed. Cir. 1994) (en banc). If the specification does not contain an adequate disclosure of the structure that corresponds to the claimed function, the patentee will have “failed to particularly point out and distinctly claim the invention as required by the second paragraph of section 112,” which renders the claim invalid for indefiniteness. Id.

As an example of the operation of the access control manager, Blackboard explains that

the access control manager assigns an access and control level for the quiz file based on a user's course role by creating an access control list. The access control list created by the access control manager associates user roles with the levels for course data files. For example, it might provide that teachers can create, view, and edit a quiz, while students can only submit a completed quiz.

But that is not a description of structure; what the patent calls the "access control manager" is simply an abstraction that describes the function of controlling access to course materials, which is performed by some undefined component of the system. The ACM is essentially a black box that performs a recited function. But how it does so is left undisclosed.

The specification contains no description of the structure or the process that the access control manager uses to perform the "assigning" function. Nor has Blackboard ever suggested that the "access control manager" represents a particular structure defined other than as any structure that performs the recited function. In fact, before the district court, counsel for Blackboard defined the term "access control manager" in precisely those terms. He stated, "We suggest that the corresponding structure for [the function of assigning a level of access to and control of each data file] is the access control manager. That's not really a revolutionary thought. The access control manager manages access control." Counsel also stated of the access control manager that "the name of it pretty much describes what it does. It assigns a level of access to and control of a user's role in a course." Blackboard's expert made clear that he did not regard the term "access control manager" as limited even to software. He stated, "Although the access manager in Figure 1 is described as software, there is nothing in the '138 patent specification that would limit the performance of the access manager's functions to software; one of ordinary skill in the art would know that hardware could be

used.” In other words, the access control manager, according to Blackboard, is any computer-related device or program that performs the function of access control.

In Aristocrat Technologies Australia Pty Ltd. v. International Game Technology, 521 F.3d 1328, 1331 (Fed. Cir. 2008), we addressed the question whether a general reference to “a standard microprocessor-based gaming machine with appropriate programming” constituted a sufficient disclosure of structure to support a claimed function in a means-plus-function claim. We concluded that it did not. First, we explained that “[t]he point of the requirement that the patentee disclose particular structure in the specification and that the scope of the patent claims be limited to that structure and its equivalents is to avoid pure functional claiming.” Id. at 1333. Without so limiting a claim, we noted, “the patentee has not paid the price but is attempting to claim in functional terms unbounded by any reference to structure in the specification.” Id. (citations omitted). We then applied those teachings to the patentee’s assertion that a reference to a general purpose computer could satisfy that standard. We noted that “any general purpose computer must be programmed” and pointed out that relying on such general structure is equivalent to saying “that the function is performed by a computer that is capable of performing the function.” Id. at 1334. We also considered and rejected the patentee’s assertion that language describing when the computer would perform the function at issue constituted a sufficient description of the structure for performing the function. Such language, we explained, “describes an outcome, not a means for achieving that outcome.” Id.

In Net MoneyIN, Inc. v. VeriSign, Inc., 545 F.3d 1359 (Fed. Cir. 2008), we again addressed a patentee’s argument that reference to a computer provides sufficient

structure for a claim drafted in means-plus-function form. In Net MoneyIN, the computer was not a general purpose computer; the patentee contended that the reference to a “bank computer” provided sufficient structure to support the function of “generating an authorization indicia in response to queries containing a customer account number and amount.” Id. at 1365. The patentee argued that “a person skilled in the art would know that such a computer would be programmed to compare account data and amount data to those data structures and generate an authorization indicia if credit were available.” Id. at 1366-67. We rejected that argument and explained that when a computer is referenced as support for a function in a means-plus-function claim, there must be some explanation of how the computer performs the claimed function:

To avoid purely functional claiming in cases involving computer-implemented inventions, we have consistently required that the structure disclosed in the specification be more than simply a general purpose computer or microprocessor. Because general purpose computers can be programmed to perform very different tasks in very different ways, simply disclosing a computer as the structure designated to perform a particular function does not limit the scope of the claim to the corresponding structure, material, or acts that perform the function, as required by section 112 paragraph 6. Thus, in a means-plus-function claim in which the disclosed structure is a computer, or microprocessor, programmed to carry out an algorithm, the disclosed structure is not the general purpose computer, but rather the special purpose computer programmed to perform the disclosed algorithm. Consequently, a means-plus-function claim element for which the only disclosed structure is a general purpose computer is invalid if the specification fails to disclose an algorithm for performing the claimed function.

Id. at 1367 (citations omitted). Because there was no disclosed algorithm in that case, we held that the claims were invalid for lack of a sufficient recitation of structure. Id.; see also Finisar Corp. v. DirecTV Group, Inc., 523 F.3d 1323, 1340-41 (Fed. Cir. 2008) (“Simply reciting ‘software’ without providing some detail about the means to accomplish the function is not enough.”).

Blackboard argues that the specification in this case contains more disclosure of the structure that performs the access control functions than did the specifications in Aristocrat and Net MoneyIN. It points to the sentence in the specification that states, “Education support system 100 provides multiple levels of access restrictions to enable different types of users to effectively interact with the system (e.g. access web pages, upload or download files, view grade information) while preserving confidentiality of information.” ’138 patent, col. 9, ll. 40-45. That sentence, however, merely states that the access control manager enables different types of users to interact with the system in a manner that preserves confidentiality (i.e., it works as intended). Like the specification in Aristocrat, that language “simply describes the function to be performed.” 521 F.3d at 1334. It says nothing about how the access control manager ensures that those functions are performed. As such, the language “describes an outcome, not a means for achieving that outcome.” Aristocrat, 521 F.3d at 1334.

Blackboard argues that the process of putting together control lists through software is well known to a person of ordinary skill in the art because access control lists “have been around for a long time and everyone of ordinary skill in the field of this invention would know how to construct one given the understanding conveyed in the specification about the entry of files into the system, and which roles have access to which types of files.” That argument, however, conflates the definiteness requirement of section 112, paragraphs 2 and 6, and the enablement requirement of section 112, paragraph 1. The fact that an ordinarily skilled artisan might be able to design a program to create an access control list based on the system users’ predetermined roles goes to enablement. The question before us is whether the specification contains

a sufficiently precise description of the “corresponding structure” to satisfy section 112, paragraph 6, not whether a person of skill in the art could devise some means to carry out the recited function.

Blackboard’s argument that a person skilled in the art could readily fashion a computer-based means for performing the “assigning” function is the same as the argument that we rejected in Medical Instrumentation & Diagnostics Corp. v. Elekta AB, 344 F.3d 1205 (Fed. Cir. 2003). There, the patentee sought to overcome a finding of indefiniteness by relying on expert testimony that a software programmer with ordinary skill in the pertinent art would be aware of programs that could be used to perform the recited function. The court explained, however, that the expert’s testimony was not directed at the correct inquiry. The court stated:

The correct inquiry is to look at the disclosure of the patent and determine if one of skill in the art would have understood that disclosure to encompass software for digital-to-digital conversion and been able to implement such a program, not simply whether one of skill in the art would have been able to write such a software program. . . . It is not proper to look to the knowledge of one skilled in the art apart from and unconnected to the disclosure of the patent.

344 F.3d at 1212 (emphasis in original).

Blackboard’s argument also parallels the argument that was rejected in Net MoneyIN, i.e., that the recitation of structure was sufficient because a person skilled in the art would know how to program a bank computer to generate “an authorization indicia.” 545 F.3d at 1367. A patentee cannot avoid providing specificity as to structure simply because someone of ordinary skill in the art would be able to devise a means to perform the claimed function. To allow that form of claiming under section 112, paragraph 6, would allow the patentee to claim all possible means of achieving a

function. See Atmel Corp. v. Information Storage Devices, Inc., 198 F.3d 1374, 1380 (Fed. Cir. 1999) (“consideration of the understanding of one skilled in the art in no way relieves the patentee of adequately disclosing sufficient structure in the specification”).

That ordinarily skilled artisans could carry out the recited function in a variety of ways is precisely why claims written in “means-plus-function” form must disclose the particular structure that is used to perform the recited function. By failing to describe the means by which the access control manager will create an access control list, Blackboard has attempted to capture any possible means for achieving that end. Section 112, paragraph 6, is intended to prevent such pure functional claiming. Aristocrat, 521 F.3d at 1333. We thus agree with the district court that the '138 patent discloses insufficient structure to perform the function of “assigning a level of access to and control of each data file based on a user of the system’s predetermined role in a course.”

IV

In summary, we affirm the district court’s decision that claims 1-35 are invalid as indefinite. Because we hold that under the proper construction of claim 36, claims 36-38 are anticipated as a matter of law, we reverse the district court’s failure to grant JMOL on that issue. We do not reach Desire2Learn’s assertion that claims 36-38 are obvious. We also do not address the parties’ contentions with respect to infringement of those claims. Based on our rulings in appeals No. 2008-1368 and 2008-1396, Blackboard’s appeal in No. 2008-1548, which pertains to the award of costs in the district court, is dismissed as moot.

Each party shall bear its own costs for these appeals.

AFFIRMED IN PART, REVERSED IN PART, and DISMISSED IN PART.

United States Court of Appeals for the Federal Circuit

GOLDEN HOUR DATA SYSTEMS, INC.,
Plaintiff-Appellant,

v.

EMSCHARTS, INC.,
Defendant-Cross Appellant,

AND

SOFTTECH, LLC,
Defendant-Appellee.

2009-1306, -1396

Appeals from the United States District Court for the Eastern District of Texas in case no. 2:06-CV-381, Judge T. John Ward.

Decided: August 9, 2010

CARTER G. PHILLIPS, Sidley Austin LLP, of Washington, DC, argued for plaintiff-appellant. With him on the brief were ERIC A. SHUMSKY and RACHEL H. TOWNSEND; and TACY F. FLINT, of Chicago, Illinois. Of counsel was PANKAJ VENUGOPAL, of Washington, DC.

ERIC H. WEISBLATT, Wiley Rein LLP, of Washington, DC, argued for defendant-cross appellant and defendant-appellee. With him on the brief was SUSAN M. DADIO, Buchanan Ingersoll & Rooney PC, of Alexandria, Virginia. Of counsel was MARTIN A. BRUEHS. ERIC H. FINDLAY and ROGER BRIAN CRAFT, Findlay Craft LLP, of Tyler, Texas, for defendant-appellee.

Before NEWMAN, FRIEDMAN, and DYK, *Circuit Judges*.

Opinion for the court filed by *Circuit Judge* DYK.

Dissenting opinion filed by *Circuit Judge* NEWMAN.

DYK, *Circuit Judge*.

Golden Hour Data Systems, Inc. (“Golden Hour”) appeals from a judgment of the United States District Court for the Eastern District of Texas. After trial, a jury rendered a verdict of infringement of various claims of United States Patent No. 6,117,073 (“the ’073 patent”) in favor of Golden Hour against defendants emsCharts, Inc. (“emsCharts”) and Softtech, LLC (“Softtech”). However, the district court subsequently granted Judgment as a Matter of Law (“JMOL”) of no joint infringement of claims 1, 6-8, 10, and 12-22 of the ’073 patent and held the ’073 patent unenforceable due to inequitable conduct. *Golden Hour Data Systems, Inc. v. emsCharts, Inc., et al.*, No. 2:06-CV-381 (E.D. Tex. Apr. 3, 2009) (“*Infringement Order*”); *Golden Hour Data Systems, Inc. v. emsCharts, Inc., et al.*, No. 2:06 CV 381 (E.D. Tex. Mar. 23, 2009) (“*Inequitable Conduct Order*”). We affirm the district court’s finding of no joint infringement. However, we conclude that the district court must make additional fact findings with respect to the intent prong of inequitable conduct. We therefore vacate the district court’s inequi-

table conduct determination and remand for further proceedings consistent with this opinion.

BACKGROUND

I

Golden Hour's '073 patent, entitled "Integrated Emergency Medical Transportation Database System" is directed to computerized systems and methods for information management services in connection with emergency medical transport, which is often performed by helicopter. Providers of such emergency medical transportation must collect and track large amounts of data for the purposes of dispatching transport, treating patients (clinical services), and also for billing. The systems of the '073 patent provide for the integration of dispatch, clinical services, and billing data. The '073 patent discloses a dispatch module, a clinical module, an administration module, and a billing module. By integrating recordkeeping, these systems seek to avoid the inefficiency, inaccuracy and potential adverse clinical results that come with redundancy in recordkeeping.

The final sentence of the "Background of the Invention" section of the '073 patent summarizes the basic concept of the invention: "what is needed is a comprehensive system that includes modules for dispatching emergency medical teams, tracking their movement to and from the accident scene, managing a clinical diagnosis and treatment and accurately billing the patient for the services rendered." '073 patent col.1 l.66-col.2 l.3. Claims 1, 6-8, 10, and 12-14 are apparatus claims and claims 15-22 are method claims. Claims 1, 10, and 15 are independent claims. Claim 1 requires integrating dispatch and billing data. It provides:

1. A computerized *integrated data management system* for tracking a patient incident, comprising:

a first module capable of dispatching an emergency transport crew specific to a patient incident requiring emergency medical care by the emergency transport crew, wherein transportation tracking information relating to the dispatch is recorded; and

a second module capable of receiving information from the first module and billing the patient appropriately for costs indicative of the patient incident, including transportation costs.

Id. col.20 l.61-col.21 l.4 (emphasis added). Claim 15 requires integrating dispatch and clinical services data. It provides:

15. A computerized method of generating a patient encounter record, comprising the steps of:

collecting flight information relating to an emergency transport crew dispatch;

collecting patient information from a clinical encounter associated with a patient incident requiring emergency medical care by the emergency transport crew; and

integrating the patient information with the flight information to produce an encounter record indicative of the patient's clinical encounter.

Id. col.21 l.54-col.22 l.6.

In February of 1997, Dr. Kevin Hutton ("Hutton") and Dr. Scott Jones ("Jones") formed Golden Hour in order to commercialize the invention ultimately covered by the '073 patent. Hutton acted as Golden Hour's chief executive officer. Hutton and Jones engaged the Knobbe Martens Olson & Bear LLP law firm ("Knobbe Martens") to

assist in the prosecution of the patent application. The application leading to the '073 patent was filed on March 2, 1998. Hutton and Jones were the named inventors. Michael Fuller ("Fuller"), a senior patent agent, and John M. Carson ("Carson"), a partner who supervised his work, prepared, filed, and prosecuted the patent application with the knowledge and assistance of Hutton.

At the time of the filing of the application, Hutton believed that Air Medical Software ("the AeroMed system") was the system most similar to the subject matter of the application. The "Description of the Related Technology" section of the '073 patent specification discusses the AeroMed system. The specification provides:

Current documentation procedures in the air medical transport industry are based on an inefficient paper and pencil technology. . . .

. . . .
The fragmentation throughout the medical transport environment is also evident in the myriad of entities throughout the country practicing different standards of care and documentation. . . . This is especially evident when certain aspects of the system (such as computerized clinical laboratory result displays) have been upgraded with a uniquely tailored computerized system, while the remaining functions are still performed in an archaic manner. While the upgraded system may be effective for one singular aspect, such as dispatching, lab reporting, or chart dictating, the remainder of the system does not improve its effectiveness due to the other archaic components.

Although others have attempted to remedy this conflict, *no fully integrated medical systems have been developed. For example, the Air Medical*

Software (Innovative Engineering of Lebanon, N.H.) provides computer software for dispatching emergency crews to accident scenes and managing flight information. However, it does not provide comprehensive integration of the flight information with a clinical diagnosis, billing system and administration system.

'073 patent col.1 ll.11-57 (emphasis added).

On August, 4, 1998, during prosecution of the '073 patent, Fuller submitted an Information Disclosure Statement ("IDS") further describing the AeroMed system. In the IDS, Fuller stated: "Applicants are aware of AeroMed Software, computer software for Air Medical Dispatch, Flight Program Management, Medical Charting, Continuing Education Tracking, Transfer Center, Physician's Referral Lines, and Custom Applications. AeroMed Software is a product of Innovative Engineering of Lebanon, New Hampshire." J.A. 4944-45.

The patent application included 27 claims. During prosecution, the Patent and Trademark Office ("PTO") issued a first office action on February 18, 1999. In this office action, the examiner rejected claims 1-5, 8-14, and 23-27 as anticipated by U.S. Patent No. 5,619,991 ("Sloane"). Certain of these claims were directed to the integration of billing information with dispatch data alone and the integration of both billing and dispatch data with clinical data. The examiner's anticipation rejection noted that the system of Sloane "is configured to generate billing information." J.A. 4940. The examiner allowed original claims 15-22, which did not relate to the integration of billing information, but which related to the integration of dispatch and clinical data. The examiner noted that though "[t]he prior art teaches systems and methods

of computerized integrated data management,” it “does not teach or suggest a computerized method that includes collecting and integrating patient information with flight information to produce an encounter record.” J.A. 4940-41. In response to the rejection, Golden Hour amended claims 1, 7, 10, 23, 26, and 27 in respects not relevant here. Golden Hour also traversed the rejections based on Sloane. Golden Hour overcame the rejections based on Sloane by arguing, in part, that Sloane’s disclosure of billing information

is based solely on the charge of the encounter between Sloane’s system and the patient. Such billing would be based solely on the amount of time spent counseling the patient as to what the appropriate treatment would be. It does not consider billing for any actual treatment such as medications, interventions, or procedures. . . . [T]his billing is for virtual services rendered. Applicant’s system tracks actual services rendered and bills for such.

J.A. 4951-52. In light of Golden Hour’s response, all claims were allowed and the ’073 patent issued on September 12, 2000.

II

The accused infringers are emsCharts and Softtech. emsCharts produces a web-based medical charting program called emsCharts. The emsCharts program charts patient information and provides integrated billing. Softtech produces computer-aided flight dispatch software called Flight Vector, which coordinates flight information, such as patient pickup and delivery, and flight tracking. The two companies formed a strategic partnership, en-

abled their two programs to work together, and collaborated to sell the two programs as a unit.

In September of 2006, Golden Hour sued emsCharts and Softtech for infringement of the '073 patent. Golden Hour accused emsCharts of directly infringing claims 10 and 12-14 of the '073 patent by making, using, offering to sell, and selling its emsCharts.com system. Golden Hour also accused emsCharts and Softtech together of jointly infringing claims 1, 6-8, and 15-22. Most of the asserted claims involve the integration of billing data. The jury returned a verdict for Golden Hour. It found that an AeroMed brochure describing the system did not anticipate the '073 patent. It found that emsCharts had directly infringed claims 10 and 12-14, that emsCharts and Softtech had jointly infringed claims 1, 6-8, and 15-22, and that emsCharts had induced infringement of all of these claims. It then determined that emsCharts' infringement was willful and awarded \$3,500,000 to Golden Hour.

After the jury verdict in favor of Golden Hour, the district court held a bench trial to consider the issue of inequitable conduct. The brochure that the jury had found not to anticipate was a central feature of the inequitable conduct trial. The brochure was undated and described the AeroMed system ("the AeroMed brochure"). Hutton testified that he did not have the brochure at the time that the application was filed on March 2, 1998, but that he received it about three weeks after at the AeroMedical Services Midyear Conference. Hutton gave prosecution counsel the AeroMed brochure sometime before August 4, 1998.

The inside of the AeroMed brochure described the AeroMed system as an integrated system with a dispatch

module combined with medical charting and billing. It stated that “[t]he AMS Dispatch Module can be used with the Flight Management Module It is an integrated real-time flight dispatching program” J.A. 10848. It advertised “[a] fast, easy way to create flight plans, cost quotes, track aircraft. No-nonsense medical charting. Billing.” *Id.* at 10847. It noted that “[t]he Flight Management Module is a companion to the Dispatch Module. All information entered by the Dispatch Module is combined into Flight Management so that duplicate data entry is eliminated.” *Id.* at 10848. It assured that, with the Flight Management Module, “[b]illing becomes a breeze with the user definable reports.” *Id.* The parties do not dispute that the brochure would have been anticipatory of some of the claims of the ’073 patent if it had been prior art, that is, if it had existed before the date of invention or more than a year before filing. *See* 35 U.S.C. § 102.

Based on the brochure, prosecution counsel prepared the IDS and filed it on August 4, 1998. The description of the AeroMed system in the IDS is identical (with the exception of “Centers” being plural in the brochure) with what is set forth on the front cover of the brochure. The IDS did not disclose the integrated billing system described in the brochure. At no time during prosecution of the application was the brochure or the billing system information provided to the examiner.

The defendants argued that prosecution counsel committed inequitable conduct by intentionally failing to disclose the brochure or the information contained in the brochure because it contradicted the statement in the specification that AeroMed “does not provide comprehensive integration of the flight information with a clinical diagnosis, billing system and administration system.” ’073

patent col.1 ll.54-57. Defendants also argued that the act of selectively disclosing material recited on the front of the brochure but not disclosing the recitation of “integrated” “billing” on the inside of the brochure also constituted inequitable conduct.

With respect to materiality, the district court found that the AeroMed brochure disclosed “integration” and “billing.” *Inequitable Conduct Order*, slip op. at 13. The district court then observed that “the inventive feature of the ’073 patent was billing integration” and that the brochure’s disclosure of integration between the Dispatch Module and the Flight Management module (which includes billing) “clearly contradicts what both Dr. Hutton and prosecution counsel had represented to the PTO [about the AeroMed system] in the application.” *Id.* at 8, 11. The court found that the information inside of the brochure “was inconsistent [with] the disclosure in the IDS, and inconsistent with how [Hutton and prosecution counsel] had described the AeroMed system in the original application.” *Id.* at 10. Therefore because “Fuller selected that part of the brochure to disclose that did not threaten patentability” and “excluded . . . the entire teaching that would have been a serious obstacle to patentability,” the district court found that “[t]here can be no question” that the withheld information is “highly material.” *Id.* at 15.

With respect to intent, the court found that Golden Hour’s nondisclosure of the brochure and selective disclosure of the contents of the brochure evidenced intent to deceive the PTO. The court concluded that Fuller must have been aware of the contents of the brochure. *Id.* at 12-13. The court reiterated that “Golden Hour and its counsel selected the one part of the AeroMed brochure to disclose [that] was consistent with how it had described

AeroMed to the PTO” and found that “[s]uch selectivity is strong evidence of intent to mislead the patent office about the relevant prior art system as described by its competitor.” *Id.* at 13. The court therefore concluded that “the single most reasonable inference to be drawn is that Golden Hour intended to deceive the patent office.” *Id.* at 14. The court then balanced the high level of materiality with the evidence of deceptive intent and concluded that Golden Hour committed inequitable conduct, rendering the ’073 patent unenforceable.

The court also granted emsCharts’ motion for JMOL with respect to the jury verdict of joint infringement. The court found that there was insufficient evidence of “control” or “direction” by emsCharts or Softtech (or vice versa) to find joint infringement of any of the claims 1, 6-8, 10, and 12-22. Golden Hour timely appealed to this court, and we have jurisdiction over this appeal under 28 U.S.C. § 1295(a)(1).

DISCUSSION

I Inequitable Conduct

On appeal, Golden Hour first argues that the district court improperly held the ’073 patent unenforceable due to inequitable conduct. “A patent may be rendered unenforceable due to inequitable conduct if an applicant, with intent to mislead or deceive the examiner, fails to disclose material information or submits materially false information to the PTO during prosecution.” *Digital Control, Inc. v. Charles Mach. Works*, 437 F.3d 1309, 1313 (Fed. Cir. 2006). The party seeking to render a patent unenforceable due to inequitable conduct must prove both materiality and intent by clear and convincing evidence. *Id.* The court must then weigh the levels of materiality and intent

to determine whether the conduct at issue amounts to inequitable conduct. *Id.* We review the district court's factual findings as to materiality and deceptive intent for clear error and the ultimate decision on inequitable conduct for abuse of discretion. *Star Scientific, Inc. v. R.J. Reynolds Tobacco Co.*, 537 F.3d 1357, 1365 (Fed. Cir. 2008); *Kingsdown Med. Consultants, Ltd. v. Hollister Inc.*, 863 F.2d 867, 876 (Fed. Cir. 1988) (en banc in relevant part).

Golden Hour argues on appeal that the district court erred with respect to its factual findings concerning both materiality and intent, and that therefore, the ultimate determination of inequitable conduct cannot stand.

A Materiality

“[W]e have held that information is material when a reasonable examiner would consider it important in deciding whether to allow the application to issue as a patent.” *Star Scientific*, 537 F.3d at 1367 (citations omitted). The PTO Rules also aid in the definition of materiality. Rule 56 provides that an applicant has a duty to disclose information that is material to patentability and states that

- (b) Under this section, information is material to patentability when it is not cumulative to information already of record or being made of record in the application, and
 - (1) It establishes, by itself or in combination with other information, a *prima facie* case of unpatentability of a claim; or
 - (2) It refutes, or is inconsistent with, a position the applicant takes in:

- (i) Opposing an argument of unpatentability relied on by the [PTO], or
- (ii) Asserting an argument of patentability.

37 C.F.R. § 1.56(b). The PTO rules clearly require the submission of known information that contradicts material information already submitted to the PTO. *See Monsanto Co. v. Bayer Bioscience N.V.*, 514 F.3d 1229, 1239-40 (Fed. Cir. 2008); *Pharmacia Corp. v. Par Pharm., Inc.*, 417 F.3d 1369, 1373 (Fed. Cir. 2005). If a misstatement or omission is material under the Rule 56 standard, it is material for the purposes of inequitable conduct. *Digital Control*, 437 F.3d at 1316.

The district court found the brochure and the undisclosed information contained in the brochure to be material because it contradicted the representations about the AeroMed system in the specification, and that the brochure was also material in view of the partial disclosure of the brochure's contents in the IDS. Golden Hour argues that the PTO Rules and the Manual of Patent Examining Procedure ("MPEP") would have precluded an examiner from considering the undated AeroMed brochure, and therefore it cannot be material. MPEP section 609 instructs examiners not to consider references included in an IDS which do not comply with 37 C.F.R. § 1.98. Section 1.98(b)(5) requires that "[e]ach publication . . . must be identified by publisher, author (if any), title, relevant pages of the publication, *date*, and place of publication." (emphasis added). Golden Hour therefore maintains that a reasonable examiner could not have considered the brochure material to patentability because the rules would prohibit the examiner from considering the brochure because it was not known to be prior art. In

other words, Golden Hour maintains that a reference is not material unless the prior art status of the reference is established on the face of the reference.

The MPEP itself contradicts this reading. The sections on which Golden Hour relies do not limit an IDS to the submission of prior art references, and the MPEP states that “[t]here is no requirement that the information [identified in an IDS] must be prior art references in order to be considered by the examiner.” MPEP § 609 (2008). Further, our prior cases make clear that information may be material even if it does not qualify as prior art. As we held in *Duro-Last, Inc. v. Custom Seal, Inc.*, 321 F.3d 1098, 1107 (Fed. Cir. 2003),

[t]his court has long held that whether a prior reference is material, i.e., whether there is a substantial likelihood that a reasonable examiner would have considered the reference important in deciding whether to allow the application to issue as a patent, is not controlled by whether that reference actually anticipates the claimed invention or would have rendered it obvious.

See also Digital Control, 437 F.3d at 1318 (“[A] misstatement or omission may be material even if disclosure of that misstatement or omission would not have rendered the invention unpatentable.”); *Li Second Family Ltd. P’ship v. Toshiba Corp.*, 231 F.3d 1373, 1380 (Fed. Cir. 2000). The information in the brochure here was clearly material.

First, the brochure may well have been prior art. While the district court made no finding as to the prior art status of the brochure, we note that there is substantial evidence in the record that the brochure is indeed

prior art. Charles Freeman, AeroMed's software developer and the brochure's author, testified that he had the brochure with him at the 1996 AMTC Conference.¹ If the brochure had been in existence in 1996, that would make the brochure prior art; further the system it described would have been prior art, given the application date of March 2, 1998. *See* 35 U.S.C. § 102(b).² A reasonable examiner would likely wish to inquire into the prior art status of the system disclosed in the brochure in light of the representations as to the system appearing in the specification. Indeed Golden Hour itself admits that an examiner "might have been curious about the brochure because it related to the same subject matter as the earlier recitation of prior art." Pl.-Appellant's Br. 25.

¹ His testimony was as follows:

Q. . . . So you said this brochure was from 1996?

A. Uh-huh.

Q. And you displayed it—you had it at the AMTC show in 1996?

A. That is correct.

Q. Are you sure about that?

A. Uh-huh.

Q. Really?

A. Uh-huh.

J.A. 4033.

² Golden Hour seems to suggest that the brochure cannot be material because the jury found it not to be prior art. However, the jury did not find that the brochure was not prior art, only that none of the claims of the '073 patent was anticipated. The jury could have concluded that the brochure was prior art, but that it did not anticipate. Therefore there is no jury finding that the brochure is not prior art.

Second, the brochure and the information contained therein were material because they contradicted other representations to the PTO, even if the brochure was not itself prior art. In the specification, applicants described the AeroMed system in existence as of the time of the application. *See* Pl.-Appellant's Br. 23 ("In the 'Background of the Invention' section of the '073 application, which was filed on March 2, 1998, Golden Hour identified the AeroMed software that existed at that time."). The specification of the '073 patent describes the AeroMed brochure, stating that "the [AeroMed system] *provides* computer software for dispatching emergency crews to accident scenes and managing flight information. However, it *does not provide* comprehensive integration of the flight information with a clinical diagnosis, billing system and administration system." '073 patent col.1 ll.52-57 (emphases added). The present-tense representation that the AeroMed system "does not provide comprehensive integration . . . with . . . billing" continued unchanged throughout the pendency of the application. In direct contradiction to that statement, the AeroMed brochure, received mere weeks after filing, states that with the Flight Management module, "[b]illing becomes a breeze with the user definable reports. Patient charges can be calculated and printed any number of ways to include transport time and itemizing of medical supplies." J.A. 10848.³ By not correcting the statement in the specification, applicants continued to maintain its truth in direct contradiction to what is disclosed in the AeroMed bro-

³ The brochure also states that "[t]he Flight Management Module is a companion to the Dispatch Module" and that "[a]ll information entered by the Dispatch Module is combined into Flight Management so that duplicate data entry is eliminated." J.A. 10848.

chure. Given the importance of integrated billing to the patentability of the invention, information inconsistent with or contrary to the application's representation of the capabilities of AeroMed's billing system in the specification would have been important to a reasonable examiner.⁴

Further, after receipt of the brochure, applicants filed the IDS describing the AeroMed brochure. The IDS was also worded in the present tense. In the IDS, prosecution counsel stated that "[a]pplicants *are aware* of AeroMed Software" and listed the attributes of the software found on the front of the brochure, but did not disclose the integrated billing found on the inside of the brochure. J.A. 4944-45 (emphasis added). Given the significance of

⁴ See *Larson Mfg. Co. v. Aluminart Prods. Ltd.*, 559 F.3d 1317, 1338-39 (Fed. Cir. 2009) (finding material a withheld adverse decision by an examiner in a substantially similar application because it "refuted, or was inconsistent with, the position that claim limitations of the [patent in suit] were patentable over the Johnson patent"); *Monsanto*, 514 F.3d at 1239 (finding materiality of the Mariani notes "in light of . . . discrepancies between the interpretation of the Barnes Abstract Bayer advocated and the information contained in the Mariani notes"); *Purdue Pharma L.P. v. Endo Pharms. Inc.*, 438 F.3d 1123, 1132 (Fed. Cir. 2006) (holding that "[i]nformation that Purdue's assertion of a four-fold dosage range was based only on [the inventor's] insight and not on experimental results was material because it was inconsistent with Purdue's statements suggesting otherwise"); *Agfa Corp. v. Creo Prods. Inc.*, 451 F.3d 1366, 1377-78 (Fed. Cir. 2006) (affirming a finding of materiality where "undisclosed prior art . . . was inconsistent with [applicant's] misleading statements to the examiner during prosecution"); *Pharmacia Corp.*, 417 F.3d at 1373 (affirming a finding of inequitable conduct where a prior article by a declarant contradicted his declaration to the PTO).

integrated billing to patentability, the failure to disclose the billing characteristics of the AeroMed system in the IDS was also highly material. The failure to disclose the integrated billing would lead one to believe that the AeroMed system did not provide comprehensive integration with billing. The brochure's recitation of integrated billing, which applicants failed to disclose, would undoubtedly have been material to a reasonable examiner.⁵ For example, the existence of an AeroMed system with integrated billing would raise the possibility of public use or on-sale bars even if the brochure itself was not prior art.⁶

⁵ See *Semiconductor Energy Lab. Co. v. Samsung Elecs. Co.*, 204 F.3d 1368, 1376-77 (Fed. Cir. 2000) (noting that an inventor must "provide the PTO with sufficient information for a reasonable examiner to consider the [submission] in context, not with a selective and misleading disclosure" and that "[b]y submitting the entire untranslated . . . reference to the PTO along with a one-page, partial translation focusing on less material portions and a concise statement directed to these less material portions, [applicant] left the examiner with the impression that the examiner did not need to conduct any further translation or investigation. Thus, [applicant] deliberately deceived the examiner into thinking that the . . . reference was less relevant than it really was, and constructively withheld the reference from the PTO").

⁶ Moreover, in the one office action issued by the examiner, the examiner noted that "[t]he prior art teaches systems and methods of computerized integrated data management, but does not teach or suggest a computerized method that includes collecting and integrating patient information with flight information to produce an encounter record, as set forth in the claims." J.A. 4940-41. The examiner then pronounced independent claim 15 allowable. This claim is, and was during prosecution, directed to a method of integrating dispatch and charting. The withheld AeroMed brochure discloses integrated

We therefore affirm the district court's finding that the information in the brochure not produced to the PTO was highly material.

B Intent

The intent element is a separate component of an inequitable conduct determination. *Star Scientific*, 537 F.3d at 1366. To prove intent, "the involved conduct, viewed in light of all the evidence, including evidence of good faith, must indicate sufficient culpability to require a finding of intent to deceive." *Digital Control*, 437 F.3d at 1319 (citations omitted). Intent need not be proven by direct evidence; it can be inferred from indirect and circumstantial evidence. *Star Scientific*, 537 F.3d at 1366 (citing *Cargill, Inc. v. Canbra Foods, Ltd.*, 476 F.3d 1359, 1364 (Fed. Cir. 2007)); *Merck & Co. v. Danbury Pharmaceutical, Inc.*, 873 F.2d 1418, 1422 (Fed. Cir. 1989). An inference of intent "must not only be based on sufficient evidence and be reasonable in light of that evidence, but it must also be the single most reasonable inference able to be drawn from the evidence to meet the clear and convincing standard." *Star Scientific*, 537 F.3d at 1366.

The contention is that Fuller, Hutton, or both, intended to deceive the PTO by failing to fully disclose the capabilities of the AeroMed system described in the brochure. The district court appears to have inferred intent to deceive from the high materiality of the AeroMed brochure, from the selective disclosure in the

dispatch and charting. The brochure would also have been material to the examiner's consideration of claim 15. *See Monsanto*, 514 F.3d at 1240 (affirming a finding of high materiality of withheld information where "[Applicant] was attempting to claim a nearly identical invention").

IDS, and from the lack of a credible explanation on the part of Hutton and prosecution counsel for the selective disclosure.⁷

We agree that the district court could find the explanation for not submitting the brochure or its undisclosed contents not to be credible (if its contents were known). The explanation was that it was Fuller's practice not to submit undated materials. But Fuller testified that he knew that other practitioners at Knobbe Martins submitted undated brochures to the PTO and that the PTO considers those brochures. But most importantly, even if Fuller believed that the PTO's rules would not have permitted the examiner to consider the undated brochure, there is no suggestion that Fuller thought that the information in the brochure was off-limits—indeed Fuller submitted information from the brochure in the IDS. *See Semiconductor Energy*, 204 F.3d at 1375, 1376 (holding that “[i]t was incumbent upon [the inventor] to provide the PTO with sufficient information for a reasonable examiner to consider the [submission] in context, not with a selective and misleading disclosure” and because “[t]he inventor[] failed to do that” he “cannot post facto hide behind the MPEP guidelines”). In sum, prosecution counsel failed to provide any explanation for withholding

⁷ With respect to both Fuller and Hutton, the district court also observed that “although the evidence emsCharts presents to prove that Dr. Hutton and prosecution counsel knew they were making false statements to the PTO *at the time of filing the patent application* [March 2] is persuasive, it does not rise to the level of clear and convincing evidence needed to find inequitable conduct.” *Inequitable Conduct Order*, slip op. at 4.

the missing information from the brochure, assuming he was aware of the brochure's contents.

The district court also did not err in finding that “[e]ven the most cursory of reviews would have revealed the description of AeroMed’s billing and integration—the only thing described in the center column of the one page brochure,” i.e., that it was inconsistent with the representations in the specification. See *Inequitable Conduct Order*, slip op. at 13.

The key question then is whether Fuller and/or Hutton in fact read the brochure. Fuller testified that he did not remember the circumstances regarding the brochure and the preparation of the IDS. He testified as follows:

I probably just looked at the front [of the brochure] and said, oh that’s AeroMed Software. May have been—and I wrote that down.

I don’t recall Your Honor. I really don’t. And so, but likely, I just looked at the front of the brochure trying to describe the software that was available and just wrote down those things that were—that were on the front of the brochure.

J.A. 4673. Fuller never testified definitively that he did not read the brochure in full. Here, there are two possible explanations for the failure to advise the PTO about the integrated billing disclosed in the brochure: (1) that Fuller and Hutton failed to read the brochure, and (2) that one or both read it and deliberately withheld the information. The distinction between these two explanations is important. If one or both read the brochure and deliberately did not disclose the damaging information on the inside, their actions would give rise to an inference of intent to deceive. However, if they did not read the

brochure (and did not do so to avoid learning of damaging information), those actions regarding the failure to disclose the information on the inside of the brochure would at most, amount to gross negligence. Gross negligence is not inequitable conduct. *See Kingsdown*, 863 F.3d at 876.

The district court appears to have discredited Fuller's testimony that he did not read the brochure because of its inconsistency with his statement that he did not disclose the brochure because it was undated, stating that

Fuller claims ignorance of what was in the brochure. Counsel testified he does not recall reading the description of AeroMed's billing in the brochure. . . . That testimony is inconsistent. Counsel testified the only explanation for exact replica of the language from the brochure was that he only looked at the front of the brochure and not the inside. *If counsel did not submit the brochure because it was undated, he must have at least done a cursory review of the brochure to determine there was no date.*

Inequitable Conduct Order, slip op. at 12-13 (citations omitted). However, Fuller never actually testified that he did not disclose the AeroMed brochure because it was undated.⁸ Fuller only testified that it was his practice in

⁸ His relevant testimony was as follows:

Q: Was it your practice at the time the patent application that became the '073 patent was filed to submit undated materials to the PTO?

A: No. There's no reason to submit undated materials. They're not even prior art; they're not material. The Examiner won't even consider them.

1998 not to submit undated materials. A fair reading of Fuller's testimony is that he testified that he did not remember reading the inside of the brochure, but that even if he had, he would not have submitted it because it was his practice not to submit undated materials. The district court indicated that it found aspects of Fuller's testimony to be "inconsistent" and unhelpful. *Id.* at 13, 15. With respect to inventor Hutton, the district court also indicated that it generally found his testimony to be incredible. *Id.* at 12 ("Dr. Hutton can not claim he did not find the brochure material."); *id.* at 8 n.3 ("Dr. Hutton's testimony in the jury trial about his understanding of AeroMed's limitations is inconsistent with other evidence in the record, and with his testimony in the bench trial on inequitable conduct."); *id.* at 8-9 (discussing the inconsistencies in Hutton's testimony regarding when he received the brochure and whether he was aware AeroMed had billing).⁹ But the district court did not actually find that

Q: And was that practice based on your understanding of the PTO's rules concerning the IDS?

A: Yes. That's what the rules say.

J.A. 4662.

⁹ In particular, the district court stated that: Dr. Hutton's testimony in the jury trial about his understanding of AeroMed's limitations is inconsistent with other evidence in the record, and with his testimony in the bench trial on inequitable conduct. For example, Dr. Hutton proffered evidence in both the jury trial and bench trial to prove that he did not understand AeroMed to have electronic billing at all. In the bench trial, however, he testified that he knew there *was* billing, but that it was not integrated. Dr. Hutton further testified in the bench trial that because of the way AeroMed did billing, it was clear to him that Freeman (the inventor of AeroMed) did not

either Fuller or Hutton was aware of the inside contents of the brochure. As findings of intent so often turn on a district court's credibility determinations, *see, e.g., Monon Corp. v. Stoughton Trailers, Inc.*, 239 F.3d 1253, 1263-64 (Fed. Cir. 2001), it is essential that the court provide detailed factual findings with respect to crucial facts—such as whether Fuller and/or Hutton read the entire brochure; whether, knowing the information to be material, they deliberately withheld it; or whether they deliberately refused to read the entire brochure in order to avoid learning damaging information.

Golden Hour argues that no remand is necessary because the record evidence could not, in any event, support a finding of intent. We disagree. Quite apart from the highly material nature of the withheld reference, the suspicious late production of the brochure, and the district court's findings as to witness credibility, there is ample evidence that could support finding that Fuller or Hutton or both actually read the brochure and determined to withhold its contents from the PTO, knowing it to be material. First, Hutton regarded AeroMed as his

understand billing. A system which lacks billing is very different from a system having billing that does not function properly.

Inequitable Conduct Order, slip op. at 8 n.3 (emphasis in original) (citation omitted). The district court also noted that “[u]ntil the eve of the bench trial, Dr. Hutton maintained he could not recall when he received the brochure. At the bench trial, however, Dr. Hutton recalled getting the brochure in late March of 1998 at the AeroMedical Services Midyear Conference.” *Id.* at 8-9 (footnote omitted). Also, the district court observed that the inventor of AeroMed testified that Dr. Hutton must have gotten the brochure at a 1996 conference. *Id.* at 8 n.4.

primary competitor. In a December 1996 business plan, Hutton told potential investors that “[t]he only similar information management product in the air medical transport market is a software product called Air Medical Software (AMS), (Innovative Engineering, Lebanon NH).” J.A. 7277. He repeated this statement in a proposal seeking financing from the UCSD CONNECT Technology Financial Forum. J.A. 10,211. And in an August 1997 “Business Overview” document, Hutton stated that “Golden Hour has *one major software competitor* in our initial market segment, called Aero Medical Software (AMS) (Innovative Engineering). . . . The AMS software does not comprehensively integrate information . . . The AMS software cannot electronically bill or track inventory.” J.A. 8262 (emphasis in original). It is likely that Hutton would have been quite interested in a brochure that described the competitor’s system.

Second, the information that Hutton originally received about the AeroMed system was based on hearsay. Hutton testified at the jury trial that his knowledge of the AeroMed system at the time of filing the patent application was from a colleague who told him that “there was no integration with the billing system and billing was very difficult from them.” *Inequitable Conduct Order*, slip op. at 8. Hutton testified at the inequitable conduct bench trial that prior to the filing date of the patent application, his understanding of the AeroMed system “came from physicians, and . . . program directors who had used the system.” J.A. 4727. He also testified that it was his understanding that the AeroMed system “had a pretty good dispatch system[,] . . . it had some integration . . . with a clinical system[,]” and it had billing, though the system “had problems with [its] billing.” J.A. 4727-28. During the preparation of the application, Hutton conveyed this knowledge of the AeroMed system to prosecu-

tion counsel and was “pretty involved in the process of drafting and prosecuting” the application. J.A. 4726. The imprecise nature of the earlier information received by Hutton might suggest that Hutton and/or Fuller would carefully review the Aero brochure.

Third, representations as to the AeroMed system were central to the claim of patentability in the original application. This centrality was demonstrated by the filing of an IDS based on the brochure. This again suggests that Fuller and/or Hutton would be interested in reading the brochure.

Fourth, it might seem unlikely that a patent practitioner would make representations as to the brochure in an IDS without reading the entire brochure and would not be interested in reading the entire brochure to determine whether there was anything in it that might disclose its prior art status.

But this also is not a situation in which a finding of deceptive intent is compelled. It is not our task to make factual findings. Therefore we must remand to the district court for it to make detailed factual findings in the first instance. *See Dennison Mfg. Co. v. Panduit Corp.*, 475 U.S. 809, 811 (1986); *see Gechter v. Davidson*, 116 F.3d 1454, 1457 (Fed. Cir. 1997) (“When the opinion explaining the decision lacks adequate fact findings, meaningful review is not possible”); *O’Neill v. United States*, 411 F.2d 139, 146 (3d Cir. 1969) (remanding to the district court for further factual findings where factual findings were conclusory and the reviewing court could not determine what evidence the lower court accepted as credible and what it rejected). In particular, the district court must determine, in the first instance, whether Hutton or Fuller in fact read the brochure and deliber-

ately decided to withhold damaging information from the PTO.

II Joint Infringement

With respect to joint infringement, this court reviews the grant of JMOL de novo. *Novartis Pharms. Corp. v. Abbott Labs.*, 375 F.3d 1328, 1332 (Fed. Cir. 2004). JMOL is appropriate when “a party has been fully heard on an issue during a jury trial and the court finds that a reasonable jury would not have a legally sufficient evidentiary basis to find for the party on that issue.” Fed. R. Civ. P. 50(a)(1). We first consider the method claims, that is, claims 15-22. Where the combined actions of multiple parties are alleged to infringe process claims, the patent holder must prove that one party exercised “control or direction” over the entire process such that all steps of the process can be attributed to the controlling party, i.e., the “mastermind.” *Muniauction, Inc. v. Thomson Corp.*, 532 F.3d 1318, 1329 (Fed. Cir. 2008) (citing *BMC Res., Inc. v. Paymentech, L.P.*, 498 F.3d 1373, 180-81 (Fed. Cir. 2007)). Here, the district court concluded that the evidence of control or direction was insufficient as a matter of law to uphold a finding of joint infringement. We agree with the district court that the evidence here was insufficient for jury to infer control or direction. We see no need for extended discussion of this issue and we affirm the district court’s grant of JMOL as to the process claims the jury found to be jointly infringed (claims 15-22).

The district court also granted JMOL as to systems claims 1 and 6-8. On appeal Golden Hour apparently argues that emsCharts was liable for infringement of those claims because emsCharts sold its emsCharts.com program and Softtech’s Flight Vector software together, and together these systems comprised the systems of the

asserted claims. Such a sale might well create liability on the part of emsCharts for the sale of the patented system, whether or not emsCharts controlled Softtech. The problem is that by agreement, claims 1 and 6-8 were submitted to the jury only on a joint infringement theory. Such a verdict can only be sustained if there was control or direction of Softtech by emsCharts. Under these circumstances, JMOL was properly granted as to the systems claims as well as to the process claims.¹⁰

**AFFIRMED-IN-PART, VACATED-IN-PART, and
REMANDED**

COSTS

No costs.

¹⁰ Contrary to the dissent's suggestions, (1) the majority does not hold that even if there were new findings, "intent to deceive was not established by clear and convincing evidence," *see* Dissenting Op. 1, and (2) the majority does not sustain the district court's JMOL ruling on infringement of claims 1, 6-8, and 15-22 because "infringement cannot be found as a matter of law," *see id.* at 6, even with proper instructions.

United States Court of Appeals for the Federal Circuit

GOLDEN HOUR DATA SYSTEMS, INC.,
Plaintiff-Appellant,

v.

EMSCHARTS, INC.,
Defendant-Cross Appellant,

AND

SOFTTECH, LLC,
Defendant-Appellee.

2009-1306, -1396

Appeals from the United States District Court for the Eastern District of Texas in Case No. 2:06-CV-381, Judge T. John Ward.

NEWMAN, *Circuit Judge*, dissenting; stay requested.

I. INEQUITABLE CONDUCT

The district court held the patent in suit unenforceable on the ground of “inequitable conduct.” The panel majority holds, and I agree, that on the evidence that was adduced before the district court, intent to deceive was not established by clear and convincing evidence; however, if deceptive intent was not established at the trial of this issue, by the party with the burden to do so, it is

inappropriate for this court to remand for another shot at it.

As for materiality, I do not share the conclusion that the undated AeroMed brochure, obtained at a trade show (the Association of Aeromedical Services) a few weeks after this patent application was filed, and found not to be invalidating prior art, was so clearly and convincingly “material to patentability” that failure to provide a copy of the brochure while quoting its front page, invalidates the patent that was found valid over the entire content of the brochure. The record does not show that the brochure was published before the Golden Hour patent application was filed. The defendants provided no documentary evidence of any publication date, and the district court did not find the brochure to be prior art; their only evidence was the “uh-huh’s” of the brochure’s author, quoted at footnote 1 of the majority opinion.

The record showed that when the brochure came into Golden Hour’s possession at the trade show, it was given to Golden Hour’s patent attorney, who referred to it in the Invention Disclosure Statement filed with the PTO, including quotation of the cover page but not the inner page. At the trial, the full brochure was in evidence, and stressed by the defendants, and the jury found that it was not invalidating. In view of the majority’s ruling that deceptive intent was not established in the district court, and the jury’s verdict of validity despite the brochure, the charge of inequitable conduct should be laid to rest. At most, this charge was deemed viable only because of inconsistencies in the law, inconsistencies that this court has presented for resolution in the pending *en banc* case of *Therasense, Inc. v. Becton, Dickinson & Co.*, Nos. 2008-1511, -1512, -1513, -1514, -1595. The court’s Order, reported at 2010 WL 1655391 (Fed. Cir. Apr. 26, 2010), presents six detailed questions for *en banc* review, and

has received extensive *amicus curiae* participation. Argument is scheduled for November 9, 2010. It is sufficiently likely that the reasoning applied in this case could be affected, that this appeal should be held pending completion of the *en banc* proceedings.¹ The Supreme Court has long followed such a procedure, as explained in, e.g., *Lawrence v. Chater*, 516 U.S. 163, 181 (1996) (“We regularly hold cases that involve the same issue as a case on which certiorari has been granted and plenary review is being conducted in order that (if appropriate) they may be ‘GVR’d’ [grant of certiorari, vacatur, and remand] when the case is decided.”) (Scalia, J., dissenting on other grounds); see generally Eugene Gressman, et al., *Supreme Court Practice* 345-49 (9th ed. 2007) (discussing the Court’s practice whereby related cases are stayed while the Court is elsewhere considering an issue that may affect the related cases). It behooves this court to be equally fair.

The charge of inequitable conduct carries high stakes for both the attorney, whose career it can threaten, and the applicant, who can lose a perfectly valid patent. In *Kingsdown Medical Consultants, Ltd. v. Hollister Inc.*, 863 F.2d 867 (Fed. Cir. 1988), this court, recognizing the abuses that had arisen, held *en banc* that both materiality

¹ For example, the panel majority relies on a case that applied the former version of PTO Rule 56 (the “reasonable examiner” subjective standard), while selectively referring to the current version of Rule 56, citing *Digital Control, Inc. v. Charles Machine Works*, 437 F.3d 1309, 1316 (Fed. Cir. 2006) (“[I]f a misstatement or omission is material under the new Rule 56 standard, it is material [for inequitable conduct]. Similarly, if a misstatement or omission is material under the ‘reasonable examiner’ standard or under the older three tests, it is also material.”). This discrepancy with the PTO standard is subject to resolution in the pending *en banc* review.

and culpable intent had to be established by clear and convincing evidence, that even gross negligence was insufficient to establish inequitable conduct, and that intent could not be inferred from materiality. For the Golden Hour patent, the question of patentability in view of the AeroMed brochure was before the jury, and the jury verdict of validity despite the AeroMed brochure is not challenged. Since intent to deceive was not established before the trial judge, and materiality is reasonably disputed, there is no basis for a second-bite ruling of inequitable conduct. I would lay the matter to rest or, at a minimum, stay the proceedings until conflicting precedent is clarified in accordance with the pending *en banc* hearing of the *Therasense* appeal. Thus I must, respectfully, dissent from the court's treatment of this issue.

II. JOINT INFRINGEMENT

The court rules that when two entities collaborate to infringe a patent, such that one performs some steps of the claim and the other performs the other steps, there cannot be any infringement, on any theory, unless one entity "controls or directs" the activity of the other. As the majority opinion reports, here the defendants "formed a strategic partnership, enabled their two programs to work together, and collaborated to sell the two programs as a unit." Maj. Op. at 8. The court now holds that such a relationship avoids all liability for infringement, even when the defendants collaborate to practice every limitation of the claims. That ruling is incorrect as a matter of law.

The parties focused on the "control or direction" criterion as negating joint infringement, for this court has stated, for example in *Muniauction, Inc. v. Thomson Corp.*, 532 F.3d 1318 (Fed. Cir. 2008), that there cannot be infringement when entities collaborate to practice a

patented invention. Such a universal statement is incorrect. A collaborative effort as here, a “strategic partnership” to sell the infringing system as a unit, is not immune from infringement simply because the participating entities have a separate corporate status. The jury found that the defendants emsCharts and Softtech combined their procedures into an integrated system that met all of the limitations of claims 1, 6-8, and 15-22, thus finding joint infringement and inducement to infringe these claims. The panel majority acknowledges that the defendants in collaboration infringed the claims, but without discussion overturns the jury verdict.

The evidence showed that emsCharts and Softtech integrated the functions of their software programs, and sold the ensuing system as a package. The jury was shown an October 2005 press release announcing “[t]his partnership,” and promoting their resultant integrated system in “seamless transition.” The press release states:

This partnership allows emsCharts to combine their existing product line with Softtech’s CAD [Computer Aided Dispatch] technology, enabling them to deliver a complete pre-hospital data solution for Emergency Medical Services.

. . . . Flight Vector integrates with the emsCharts web-based EMS management application, providing a seamless transition from CAD to medical reports to billing through a user-friendly web interface.

“emsCharts strives to deliver best-of-breed products to our customers,” said Pete Goutmann, Vice President and founder of emsCharts. “We believe that this strategic partnership with Softtech will provide the air medical industry with a complete flight management solution – delivering the best of charting with the best of dispatch.”

GOLDEN HOUR DATA v. EMSCHARTS

6

J.A.5030. On this and other evidence, a reasonable jury could have found that this collaborative activity infringed the various claims, as shown in the verdict form. My colleagues err in discarding this verdict on the ground that infringement cannot be found as a matter of law. From this ruling, I must again dissent.

United States Court of Appeals for the Federal Circuit

2009-1099, -1108, -1119

SEB S.A.,

Plaintiff/Counterclaim Defendant-
Cross Appellant,

and

T-FAL CORPORATION,

Counterclaim Defendant,

v.

MONTGOMERY WARD & CO., INC.,

Defendant,

and

GLOBAL-TECH APPLIANCES, INC.,

Defendant-Appellant,

and

PENTALPHA ENTERPRISES, LTD.,

Defendant/Counterclaimant-
Appellant.

Norman H. Zivin, Cooper & Dunham LLP, of New York, New York, argued for plaintiff/counterclaim defendant-cross appellant. With him on the brief was Wendy E. Miller.

William Dunnegan, Dunnegan LLC, of New York, New York, argued for defendant-appellant and defendant/counterclaimant-appellant. With him on the brief was Laura Scileppi.

Appealed from: United States District Court for the Southern District of New York

Judge Stephen C. Robinson

United States Court of Appeals for the Federal Circuit

2009-1099, -1108, -1119

SEB S.A.,

Plaintiff/Counterclaim Defendant-
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T-FAL CORPORATION,

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MONTGOMERY WARD & CO., INC.,

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GLOBAL-TECH APPLIANCES, INC.,

Defendant-Appellant,

and

PENTALPHA ENTERPRISES, LTD.,

Defendant-Counterclaimant-
Appellant.

Appeals from the United States District Court for the Southern District of New York in 99-CV-9284, Judge Stephen C. Robinson.

DECIDED: February 5, 2010

Before RADER, BRYSON, and LINN, Circuit Judges.

RADER, Circuit Judge.

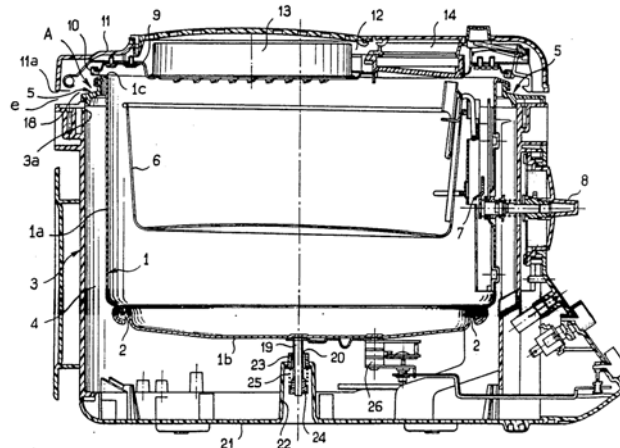
This case began in August of 1999 when Plaintiff SEB S.A. ("SEB") sued defendants Montgomery Ward & Co., Inc. ("Montgomery Ward"), Global-Tech Appliances, Inc. ("Global-Tech"), and Pentalpha Enterprises, Ltd. ("Pentalpha") for infringement of U.S. Patent No. 4,995,312 (the "'312 patent"). Almost seven years later, a jury found that Pentalpha had willfully infringed, and induced infringement of, claim 1 of the '312 patent and awarded SEB \$4.65 million in damages. Pentalpha filed post-trial motions on a number of grounds. The district court granted them in part, reducing the amount of damages by \$2 million. SEB S.A. v. Montgomery Ward & Co., No. 99-9284, 2007 WL 3165783 (S.D.N.Y. Oct. 9, 2007) ("JMOL Opinion"). The district court awarded SEB enhanced damages and attorneys' fees, but later vacated that award in light of this court's decision in In re Seagate Technology, LLC, 497 F.3d 1360 (Fed. Cir. 2007) (en banc). SEB S.A. v. Montgomery Ward & Co., No. 99-9284, 2008 WL 4540416 (S.D.N.Y. Oct. 1, 2008) ("Enhanced Damages Opinion"). On appeal, Pentalpha raises a host of issues that relate to the jury verdict and the district court's post-trial rulings. SEB cross-appeals the district court's enhanced damages ruling. Detecting no reversible error in the district court proceedings, this court affirms.

I.

SEB is a French company that specializes in home-cooking appliances. It sells products in the United States through an indirect subsidiary, T-Fal Corp. ("T-Fal"). SEB owns the '312 patent, entitled "Cooking Appliance with Electric Heating," which claims a deep fryer with an inexpensive plastic outer shell, or skirt. In the past, skirts for

deep fryers were made of plastic material capable of continuously withstanding temperatures higher than 150° C. These heat resistant plastics, however, are expensive and therefore incompatible with large-scale manufacture of low-priced fryers.

The skirt disclosed in the '312 patent, labeled with the number 3 in the cross-section shown below, is well-insulated from the heat of the fryer's metal pan (1).



The '312 patent explains construction of a deep fryer with a well-insulated skirt. A ring of heat-insulating and heat-resistive material (5) joins the top edge of the skirt to the top edge of the pan. Other than that ring, however, the skirt is “completely free with respect to the pan.” '312 patent col.1 l.65-col.2 l.2. The skirt and the pan are separated by “an air space of sufficient width to limit the temperature of the skirt.” Id. at col.1 ll.60-64. Thus, because of the insulation provided by air space, the skirt “can be fabricated from inexpensive ordinary-grade plastic material [that] does not afford resistance to high temperatures.” Id. at col.4 ll.32-35.

Claim 1 of the '312 patent, the only claim at issue, reads as follows (emphasis added):

An electrical deep fryer comprising a metal pan (1) having a wall, and an electric heating resistor [sic] (2) that heats said wall directly by conductive heating to a temperature higher than 150° C., said pan (1) being

surrounded by a plastic skirt (3), wherein said skirt (3) is of plastic material which does not continuously withstand a temperature of 150° C., said skirt (3) entirely surrounding the lateral wall (1a) and the base (1b) of the pan and being separated from said wall and said base by an air space (4) of sufficient width to limit the temperature of the skirt (3) to a value which is compatible with the thermal resistance of the plastic material of the skirt (3), said skirt (3) being completely free with respect to the pan (1) with the exception of a ring (5) which joins only the top edge (3a) of the skirt to the top edge (1c) of the pan and to which this latter is attached, said ring (5) being of heat-insulating material which is continuously resistant to the temperature of the top edge (1c) of the pan (1).

Defendant Pentalpha is a Hong Kong corporation and a subsidiary of defendant Global-Tech, a British Virgin Islands corporation, which was formerly known as Wing Shing International, Ltd. (For convenience, this opinion will refer to Pentalpha and Global-Tech collectively as “Pentalpha.”) Pentalpha began selling its accused deep fryers to non-party Sunbeam Products, Inc. (“Sunbeam”) in 1997. In developing its deep fryer, Pentalpha purchased an SEB deep fryer in Hong Kong and copied its “cool touch” features. Shortly after agreeing to supply Sunbeam, Pentalpha obtained a “right-to-use study” from an attorney in Binghamton, New York. The attorney analyzed 26 patents and concluded that none of the claims in those patents read on Pentalpha’s deep fryer. Pentalpha, however, did not tell the attorney that it had copied an SEB deep fryer.

Sunbeam resold the Pentalpha deep fryers in the United States under its own trademarks, “Oster” and “Sunbeam.” On March 10, 1998, SEB sued Sunbeam in the United States District Court for the District of New Jersey, alleging that Sunbeam’s sales infringed the ’312 patent (the “Sunbeam Suit”). See SEB S.A. v. Sunbeam Corp., No. 2:98-CV-1050 (date closed May 28, 2002). Pentalpha was notified of the Sunbeam Suit on April 9, 1998. That suit ended in a settlement in which Sunbeam agreed to pay SEB \$2 million.

Pentalpha also sold the same deep fryers to non-party Fingerhut Corp. (“Fingerhut”) and defendant Montgomery Ward. These sales to Fingerhut and Montgomery Ward occurred after Pentalpha learned of the Sunbeam Suit. Like Sunbeam, Fingerhut and Montgomery Ward also sold the products under their own trademarks, CHEF’S MARK and ADMIRAL. Pentalpha sold these deep fryers to its three customers free on board Hong Kong or mainland China. “Free on board,” or “f.o.b.,” is a “method of shipment whereby goods are delivered at a designated location, usually a transportation depot, at which legal title and thus the risk of loss passes from seller to buyer.” Litecubes, LLC v. N. Light Prods., Inc., 523 F.3d 1353, 1358 n.1 (Fed. Cir. 2008).

II.

SEB filed a motion for a preliminary injunction on September 10, 1999. Following a claim construction hearing, the district court granted SEB’s motion, holding that SEB was likely to prove at trial that Pentalpha’s deep fryers infringe at least claim 1 of the ’312 patent. SEB S.A. v. Montgomery Ward & Co., 77 F. Supp. 2d 399 (S.D.N.Y. 1999) (“Preliminary Injunction Opinion”). This court affirmed the preliminary injunction order without opinion. SEB, S.A. v. Montgomery Ward & Co., Inc., 243 F.3d 566 (Fed. Cir. 2000) (Rule 36).

Pentalpha then redesigned its deep fryer by replacing the ring that separated the skirt and the pan with six blocks or ring segments. SEB sought to supplement the original preliminary injunction to include Pentalpha’s modified deep fryer. The district court granted SEB’s application for supplemental injunctive relief in 2001, finding that SEB was likely to prove at trial that the modified fryer infringes at least claim 1 of the

'312 patent under the doctrine of equivalents. SEB S.A. v. Montgomery Ward & Co., 137 F. Supp. 2d 285 (S.D.N.Y. 2001) ("DOE Opinion"). Pentalpha's primary argument, which the district court did not adopt, was based on prosecution history estoppel. Pentalpha did not appeal the district court's ruling of infringement by equivalents.

Discovery closed on October 30, 2001. On April 17, 2006, the district court commenced a trial. During trial, the record shows that the jury received evidence of Pentalpha's sales to Sunbeam, Fingerhut, and Montgomery Ward. Following the close of evidence, Pentalpha moved for judgment as a matter of law ("JMOL") on SEB's claim that Pentalpha had induced infringement of the '312 patent through those sales. Pentalpha's JMOL motion was based on the lack of evidence that anyone at Pentalpha "had any knowledge whatsoever with respect to the existence of the patent." J.A. 2209. The district court noted at the Rule 50(a) motion proceedings that "there is no evidence that [Pentalpha] was aware of [the '312] patent" before April 9, 1998. Nonetheless, the court held that there was evidence to support SEB's theory of inducement, which the court characterized as follows:

[SEB is] saying that you could infer the specific intent to . . . encourage the infringement by the fact that [Pentalpha's president] doesn't disclose that [Pentalpha copied the SEB product] to the people doing the [patent] search. [Pentalpha] wants them to do a search that . . . is doomed to failure, and that that is enough, that a reasonable jury could infer that, specific intent. . . . Here is the argument. There are a zillion patent attorneys in New York City, [yet] [t]hey go to this guy in the middle of nowhere to do this patent search. . . . I don't know what happened. I'm not in [Pentalpha's President's] head. I don't know what he did. . . . I think it is . . . a reasonable argument, could a jury infer from those actions, if they chose to believe them in the way the plaintiffs want, that that was an indication that [he] understood that he was likely violating a patent, in fact violating a patent.

The district court therefore allowed SEB's inducement claim to reach the jury.

The jury found that Pentalpha, with both its original and modified deep fryers, willfully infringed claim 1 of the '312 patent. The jury also found that Pentalpha induced others to infringe with both versions of the fryers. As damages, the jury awarded SEB a total of \$4.65 million as a reasonable royalty, with \$3.6 million attributable to Sunbeam's sales of Pentalpha's deep fryers, \$540,000 to Fingerhut's sales, and \$510,000 to Montgomery Ward's sales.

Pentalpha then renewed its motion for JMOL and moved for a new trial, arguing that SEB did not adequately prove inducement under 35 U.S.C. § 271(b). Pentalpha also sought an offset of damages in an amount equal to the \$2 million that SEB received in its settlement with Sunbeam. SEB filed a cross motion for enhanced damages, attorneys' fees, prejudgment interest, and injunctive relief.

In response to Pentalpha's post-trial motions, the district court reduced the damages award by \$2 million. JMOL Opinion, 2007 WL 3165783, at *5. The trial court denied the rest of Pentalpha's post-trial motions. Id. at *12. The district court granted SEB's cross-motion in part, based on the reduced award, id. at *10-12, but later vacated its award of enhanced damages and attorneys' fees based on Seagate, Enhanced Damages Opinion, 2008 WL 4540416, at *4. Thus, the district court entered judgment against Pentalpha in the amount of \$4,878,341. These appeals followed.

III.

As a threshold matter, this court needs to address a claim construction issue. The district court, as a part of its preliminary injunction order in 1999, construed the limitation "completely free with respect to the pan" in claim 1 to mean "there are no thermal bridges between the skirt and the pan." Preliminary Injunction Opinion, 77 F.

Supp. 2d at 405. A thermal bridge is an element that conducts heat. As a matter of context, this court notes that a vertical stabilizing screw secures the skirt of Pentalpha's fryer to the base of the pan. This screw, however, is not a thermal bridge. Thus, the stabilizing screw does not preclude the conclusion that the skirt is "completely free with respect to the pan" under the district court's claim construction. But if "completely free" means instead "no solid material between the pan and the skirt," as Pentalpha contends, then the stabilizing screw absolves Pentalpha's deep fryer of infringement.

This court, of course, reviews claim construction without deference. Cybor Corp. v. FAS Techs., Inc., 138 F.3d 1448, 1455-56 (Fed. Cir. 1998) (en banc). This court's prior affirmance of the district court's preliminary injunction order does not make the district court's claim construction in its 1999 opinion the law of the case. See Int'l Commc'n Materials, Inc. v. Ricoh Co., 108 F.3d 316, 319 (Fed. Cir. 1997) (claim construction for a preliminary injunction is not definitive "without the more complete record that the district court deemed necessary to its own final decision"). The words of a claim receive the meaning discernible by a person of ordinary skill in the art who has read the entire patent, including the specification, at the time of the invention. Phillips v. AWH Corp., 415 F.3d 1303, 1312-13 (Fed. Cir. 2005) (en banc). The claims themselves, both asserted and unasserted, govern the meaning of claim terms. Id. at 1314.

This court perceives a slight internal inconsistency with the district court's claim construction of "completely free" in the phrase "said skirt (3) being completely free with respect to the pan (1) with the exception of a ring (5)." The claim requires the ring to be "heat-insulating" and "continuously resistant to the temperature of the . . . pan." Thus,

the ring is not a thermal bridge. If “completely free” merely meant “no thermal bridges between the skirt and the pan,” the claim would not need to exclude expressly the ring from the completely free limitation.

Despite this minor inconsistency, the district court’s construction of “completely free” rings true. Claim 8 of the ’312 patent, which depends from claim 1, adds an insulated stabilizing screw between the base of the pan and the base of the skirt. ’312 patent col.6 ll.19-24. With this context, a person of ordinary skill in the art would not read the “completely free” limitation of claim 1 to mean “no solid material between the pan and the skirt” because that reading would not allow for the vertical rod of claim 8. See Phillips, 415 F.3d at 1314 (“Differences among claims can . . . be a useful guide in understanding the meaning of particular claim terms.”).

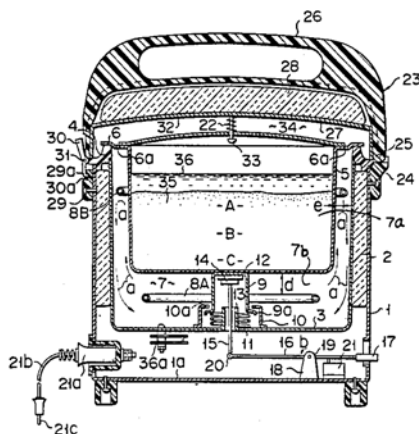
Moreover, the only embodiment in the specification includes solid material between the pan and the skirt, namely, the vertical rod, id. at col.3 ll.55-65, as well as a thermostat attached to the base of the pan, id. at col.4 ll.3-7. “[A] construction that would not read on the preferred embodiment would rarely if ever be correct and would require highly persuasive evidentiary support.” Chimie v. PPG Indus., Inc., 402 F.3d 1371, 1377 (Fed. Cir. 2005) (internal quotations and alterations omitted). Thus, with the preferred embodiment showing a vertical stabilizing screw, the “completely free” limitation cannot be read so broadly as to exclude this preferred embodiment.

Finally, the specification repeatedly highlights the inventiveness of eliminating thermal bridges to prevent heat transfer to the plastic skirt. For example, the specification notes that in the prior art, “the attachment of the metal pan within the plastic skirt is such that numerous thermal bridges exist between said pan and said

skirt.” ’312 patent col.1 ll.38-40. Those thermal bridges required the skirt to be “formed of [costly] plastic material.” Id. at col.1 ll.41-42. Following the theme of preventing heat transfer, the specification discusses a thermostat between the pan and the skirt but emphasizes its placement “remote from the base 21 of the skirt 3 of plastic material in order to prevent any thermal bridge which would be liable to heat this plastic material to an excessive extent.” Id. at col.4 ll.3-8. Thus, the patent stresses that eliminating thermal bridges is not the same as eliminating any solid material.

Read in light of the entire specification and with an eye to the preferred embodiment, then, the term “completely free” means “practically or functionally free.” Indeed, the specification uses the two terms “completely” and “practically” interchangeably. Compare ’312 patent col. 1 ll.65-66 (“Said skirt is completely free with respect to the pan”) (emphasis added) with id. at col. 4 ll.28-35 (“[I]n addition to the fact that the skirt 3 is practically free with respect to the pan 1 or in other words that no thermal bridge is created between the pan and the skirt, this latter can be fabricated from inexpensive ordinary-grade plastic material, which does not afford resistance to high temperatures.”) (emphasis added). This court often assumes that different terms convey different meanings. Symantec Corp. v. Computer Assocs. Int’l, Inc., 522 F.3d 1279, 1289 (Fed. Cir. 2008). That assumption, however, carries less weight when comparing a term in the claim to a term in the specification, especially where, as here, the specification only describes one embodiment. Cf. id. (“[T]here is nothing in the claims, the specification or the prosecution history that suggests that the preamble language ‘as it is being transferred’ has any different meaning than [the claim term] ‘prior to storage.’”).

Pentalpha supplies some evidentiary support for its proposed construction, but that support is not “highly persuasive” or sufficient to overcome the meaning that embraces the preferred embodiment. During prosecution of the '312 patent, the examiner rejected the proposed claims as anticipated by or obvious over U.S. Patent No. 4,672,179 (“Onishi”). Onishi discloses a rice cooker with the side walls of the pan and the side wall of the skirt separated by an adiabatic material, or a material that does not gain or lose heat:



Onishi at Fig. 1, col.2 ll.49-53.

To distinguish Onishi, the applicant stated

in ONISHI . . . , the two walls 1 and 3 are separated by an adiabatic material 2 (whose nature is not specified) whereas in the case of the present invention, the outer plastic skirt 3 is completely free with respect to the pan 1 with the exception of a ring 5. This means that the space comprised between the skirt 3 and the pan 1 is entirely occupied by air and that there is no solid material therebetween.

A-119 (emphasis added). Pentalpha argues that SEB thereby narrowed the claim limitation “completely free” during prosecution and that the doctrine of prosecution disclaimer should preclude the district court’s construction. See N. Am. Container, Inc. v. Plastipak Packaging, Inc., 415 F.3d 1335, 1346 (Fed. Cir. 2005) (“[W]e have

previously explained that limitations may be construed to exclude a preferred embodiment if the prosecution history compels such a result.”).

Contrary to Pentalpha's contentions, however, this court interprets this prosecution history as consistent with the district court's claim construction. As noted, this also allows this court to account for the only embodiment provided in the '312 patent's specification. Thus, read in context, the applicant's reference to “no solid material” refers only to the volume between the sides of the pan and skirt. As the quote from the prosecution history reveals, the applicant was only addressing the lack of “adiabatic material” in his invention to distinguish the Onishi reference. Indeed the applicant could not have intended his comment to preclude any solid material between the base of the pan and the base of the skirt because both Onishi and his own invention include a vertical stabilizing element.

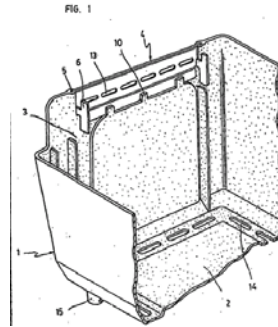
Thus, this court does not read the prosecution history to alter or disclaim the district court's interpretation of the claim language. Pentalpha's attempt to create a disclaimer simply stretches this prosecution history too far. At most, the prosecution statement requires “completely free” to mean “no solid material between the sides of the pan and the sides of the skirt and no thermal bridges between the base of the skirt and the base of the pan.” The additional precision of this construction would also avoid the slight internal inconsistency of excepting the ring from the “completely free” limitation. In any event, this court detects no reversible error in the district court's claim construction.

IV.

Following the jury verdict, Pentalpha moved for JMOL based on prosecution history estoppel, arguing that SEB's statements during prosecution should preclude any infringement by its modified deep fryer under the doctrine of equivalents. As noted, Pentalpha modified its deep fryer by replacing the ring that separates the skirt and the pan with six blocks. According to Pentalpha, the applicant's prosecution arguments during patent acquisition at the PTO preclude a finding that the six blocks are equivalent to the ring in claim 1. See Conoco, Inc. v. Energy & Env'tl. Int'l, L.C., 460 F.3d 1349, 1364 (Fed. Cir. 2006) ("To invoke argument-based estoppel . . . the prosecution history must evince a clear and unmistakable surrender of subject matter.").

Pentalpha did not seek JMOL on this ground at the close of evidence. Under Rule 50(b), a party may "renew" an earlier "request for judgment as a matter of law by filing a motion no later than 10 days after entry of judgment." Fed. R. Civ. P. 50(b); see Broadnax v. City of New Haven, 415 F.3d 265, 268 (2d Cir. 2005). If an issue is not raised in a previous motion for a directed verdict, however, this court's review is highly deferential. The Court of Appeals for the Second Circuit, whose law governs the procedural aspects of this case, see Bd. of Trustees of Leland Stanford Junior Univ. v. Roche Molecular Sys., Inc., 583 F.3d 832, 840 (Fed. Cir. 2009), requires that, in such a case, "a Rule 50(b) motion should not be granted unless it is required to prevent manifest injustice." Broadnax, 415 F.3d at 268 (quotation marks omitted).

During prosecution, the applicant argued that the claims were not obvious over Onishi in light of a Spanish reference ("Taurus"), which discloses a fryer with openings in the outer wall:



To distinguish Taurus, the applicant explained that cool outside air circulated through the above spaces between the inner and outer walls. This cooling mechanism is called convective cooling. Onishi, the applicant argued, relied on convective heating. Onishi itself explains that the heater heats the air in the heating space so as to uniformly heat the pot. Onishi col.1 ll.45-59. The applicant argued to the PTO that the teachings of Onishi and Taurus could not be combined to achieve the claimed deep fryer because neither convective “heating or cooling mechanisms has anything to do with the present invention.”

At trial, however, SEB’s expert, Charles Van Horn, testified that the temperature of the skirt in Pentalpha’s modified deep fryer might be kept at a low level in part due to hot air leaking out of the deep fryer. Specifically, Mr. Van Horn testified that the ring segments in the modified fryer did not completely close off the air space between the pan and the skirt. Moreover, he indicated that hot air escaped the modified fryer, although he did not know the rate of escape. And he affirmed that a deep fryer that has hot air leaking out of it will result in a cooler outside plastic wall than a deep fryer that does not. Pentalpha thus argues that its modified deep fryer cannot infringe under the doctrine of equivalents because the ring segments allow for the same convective cooling that SEB disavowed during prosecution of the '312 patent.

This court can assume, without deciding, that the applicant's statement during prosecution disclaimed any coverage of deep fryers that control the temperature of the outer wall through convective cooling. A reasonable jury could nonetheless conclude that Pentalpha's modified fryer does not rely on convective cooling to control the temperature of the skirt. The six large vent holes in Taurus that together span almost the entire width of the side wall do not readily compare to Pentalpha's modified fryer, which was presented to the jury and appears to allow only minimal air leakage. Mr. Van Horn's testimony about some hot air leakage does not compel the jury to find that the modified deep fryer relied on convective cooling to control the temperature of the wall. The jury might also reasonably conclude that the hot air leakage along the ring of the modified fryer did not appreciably contribute to controlling the temperature of the outer plastic wall. Because Pentalpha did not raise its JMOL motion in a timely fashion, this court must detect a manifest injustice before sustaining this untimely motion. With substantial questions about the operation of the modified fryer and Mr. Van Horn's vague testimony on convective cooling, this court detects no manifest injustice in honoring the jury's finding of infringement under the doctrine of equivalents.

This court also perceives no prejudice to Pentalpha in the district court's conclusion at the preliminary injunction stage that prosecution history estoppel did not apply. As discussed already, a preliminary injunction ruling is by nature only preliminary. Pentalpha had opportunities to renew its argument before the jury or to request a jury instruction estopping application of the doctrine of equivalents to a fryer that relies on convective cooling. Finally, Rule 50 at least required Pentalpha to raise its argument before the jury verdict. Broadnax, 415 F.3d at 268. By the time Pentalpha

filed its post-verdict JMOL motion, it was too late. And, as noted, this court discerns no material injustice in the jury's findings in this setting.

V.

The district court allowed SEB's expert, Mr. Van Horn, to testify over Pentalpha's objections. Pentalpha argued that Mr. Van Horn should be precluded from testifying as to infringement on the ground that he lacked expertise in the art of designing deep fryers. On appeal, Pentalpha argues that the district court's decision to admit Mr. Van Horn's testimony was an abuse of discretion.

The district court did not abuse its discretion by admitting Mr. Van Horn's testimony. This court will not disturb a district court's evidentiary rulings unless "manifestly erroneous." SR Int'l Bus. Ins. Co. v. World Trade Ctr. Props., LLC, 467 F.3d 107, 119 (2d Cir. 2006) (quotation omitted). District courts enjoy "wide latitude" to determine admissibility and "the mode and order" of evidentiary presentations. Id. In this case, the district court was in the best place to judge that Mr. Van Horn had the "knowledge, skill, experience, training, [and] education" of a "specialized" nature that was likely to "assist the trier of fact to understand the evidence or to determine" infringement. Fed. R. Evid. 702.

Mr. Van Horn has an undergraduate degree in chemical engineering from Lehigh University, a J.D. from American University, and an M.B.A. from George Washington University with a specialty in behavioral science. He worked in the U.S. Patent & Trademark Office for 31 years in various capacities, including as a patent examiner in the classes of fiber technology, electric photography, and structural and nonstructural laminates; as a supervisor in miscellaneous chemical technology; and as a director of

the organic chemistry and biotechnology group. Although he testified that he is not skilled in designing deep fryers, Mr. Van Horn explained that his experience was relevant because the claimed invention “involves the selection of particular . . . polymer material that have certain characteristics” and that “[m]ost of the areas [he has] worked in . . . have used polymers in one form or another.” Moreover Mr. Van Horn did not testify about deep frying per se, but instead described the importance of selecting a material for the ring or ring segments that would be resistant to the hot pan, as well as the importance of the spacing between the hot pan and the skirt. In light of the court’s claim construction, which, as discussed, included a reference to thermal bridges, Mr. Van Horn’s testimony established an adequate relationship between his experience and the claimed invention.

This case comes nowhere close to the unusual situation in Sundance, Inc. v. DeMonte Fabricating Ltd., 550 F.3d 1356 (Fed. Cir. 2008). In Sundance this court held that a district court abused its discretion when it admitted the testimony of a patent law expert “[d]espite the absence of any suggestion of relevant technical expertise.” Id. at 1361-62. Here, as explained, Mr. Van Horn had sufficient relevant technical expertise for the district court to allow him to testify. This court detects no abuse of discretion.

VI.

Pentalpha also challenges the district court’s judgment under 35 U.S.C. § 271(a) and (b). As to § 271(a), direct infringement, Pentalpha challenges the district court’s jury instructions. As to § 271(b), inducement of infringement, Pentalpha contends that the district court erred in its JMOL rulings because Pentalpha had no actual knowledge of the patent during part of the time it was selling deep fryers to Sunbeam. See DSU

Med. Corp. v. JMS Co., 471 F.3d 1293, 1304 (Fed. Cir. 2006) (en banc) (“The requirement that the alleged infringer knew or should have known his actions would induce actual infringement necessarily includes the requirement that he or she knew of the patent.”) (emphasis added). Before addressing either of Pentalpha’s arguments, this court must determine if it needs to address direct infringement only, inducement of infringement only, or both.

Under the general verdict rule, where one or more of multiple claims is found legally invalid, a reviewing court must reverse and order a new trial if unable to determine whether the invalid theory tainted the verdict. AIG Global Sec. Lending Corp. v. Banc of America Sec. LLC, 646 F. Supp. 2d 385, 406 (S.D.N.Y. 2009) (collecting cases). That rule has also been held to apply in cases where the jury received multiple legal theories of liability. Id. (same).

Here, the jury received a verdict form with the label “special” rather than general. Using that verdict form, the jury found both direct infringement and inducement of infringement. Normally, such a verdict could support a damages award even if only one theory was correct. As long as the court can “determine” that “the verdict was based upon the [valid] theory,” the general verdict rule does not require a new trial. Id. A closer look at the damages question in this verdict form, however, along with the jury instructions, reveals a hopeless ambiguity.

The verdict form itself suggests that the jury was asked to base its damages calculation on inducement only. The verdict form asked, “What amount of damages in the form of a reasonable royalty do you find the plaintiff to have proven by a preponderance of the evidence with respect to deep fryers sold by Sunbeam, Fingerhut,

and Montgomery Ward?” J.A. 2508 (emphasis added). This instruction advised the jury to consider deep fryers sold by Pentalpha’s customers, as opposed to the deep fryers that Pentalpha sold to its customers. Therefore, this instruction could have led the jury to base the damages calculation on inducement alone.

On the other hand, the jury instructions also indicate that the jury could assess damages for direct infringement. The instructions stated:

The patent law specifically provides that the amount of damages that the Defendants must pay Plaintiff for infringing Plaintiff’s patent may not be less than a reasonable royalty for the use that the Defendants made of Plaintiff’s invention. You must determine what a reasonable royalty would be for the infringing sales of these Defendants and their subsidiaries.

J.A. 2484 (emphasis added). In contrast to the verdict form, the jury instructions required the jury to look to Pentalpha’s sales. This language requires a classic direct infringement analysis. See, e.g., Minco, Inc. v. Combustion Eng’g, Inc., 95 F.3d 1109, 1119 (Fed. Cir. 1996) (affirming a reasonable royalty award where “the district court awarded [the patentee] a royalty rate of 20% on the gross value of [the direct infringer’s] applicable sales”).

The record therefore does not clearly indicate that the jury found damages based on inducement alone, or based on direct infringement alone, or both. The general verdict rule requires that the only way this court can affirm in such a circumstance is by determining that the jury’s finding of both direct infringement and inducement of infringement was proper. As explained below, after carefully examining the record and the authority cited by both parties, this court discerns that this verdict satisfies that requirement and was proper on both counts.

A.

Section 271(a) makes it an act of infringement to “without authority make[], use[], offer[] to sell, or sell[] any patented invention, within the United States.” Pentalpha faults the jury instructions with respect to direct infringement on two grounds, each of which relates to the extraterritorial effect of U.S. patent law. First, Pentalpha argues that the district court should have charged the jury that an offer in the United States to sell goods outside of the United States would not violate the “offer to sell” provision of § 271(a). Second, Pentalpha argues that the district court erred by instructing the jury that, in determining if a sale occurred in the United States, it could consider “where the products were shipped from and where the products were shipped to.”

Pentalpha does not specify the point in the record showing an objection to these portions of the jury instructions. Fed. R. Civ. P. 51 requires a litigant to make a timely objection to a jury instruction in order to challenge that instruction on appeal. “The purpose of this Rule is to require the parties to give the trial court an adequate opportunity to cure any error in the instructions before the jury deliberates.” Metromedia Co. v. Fugazy, 983 F.2d 350, 363 (2d Cir. 1992). The United States Court of Appeals for the Second Circuit reviews jury instructions for which a timely objection is lacking for fundamental error. Fabri v. United Techs. Int’l, Inc., 387 F.3d 109, 121 (2d Cir. 2004). “Fundamental error is more egregious than the ‘plain’ error that can excuse a procedural default in a criminal trial and is so serious and flagrant that it goes to the very integrity of the trial.” Id. (quoting Jarvis v. Ford Motor Co., 283 F.3d 33, 62 (2d Cir. 2002)).

Neither of the alleged problems with the district court's jury instruction constitutes fundamental error. This court has yet to define the full territorial scope of the "offers to sell" offense in § 271(a). But see Rotec Indus., Inc. v. Mitsubishi Corp., 215 F.3d 1246, 1260 (Fed. Cir. 2000) (Newman, J., concurring) ("[A]n offer to sell a device or system whose actual sale can not infringe a United States patent is not an infringing act under § 271."). But even if this court had, Pentalpha's sales in this case did not so clearly occur overseas that the district court's failure to include such a limitation in its jury instructions affected the integrity of the trial.

To the contrary, the only evidence on which Pentalpha relies to argue that its sales occurred overseas was that it delivered its products to Sunbeam, Montgomery Ward, and Fingerhut f.o.b. Hong Kong or mainland China. This court has "rejected the notion that simply because goods were shipped f.o.b., the location of the 'sale' for the purposes of § 271 must be the location from which the goods were shipped." Lightcubes, 523 F.3d at 1370.

For the same reason, the district court's instruction that the jury could consider "where the products were shipped from and where the products were shipped to" in determining if a sale occurred in the United States was not a fundamental error. If anything, the jury instructions helped Pentalpha: the court instructed the jury that it could consider the f.o.b. terms, even though those terms were not dispositive. Other than the f.o.b. terms in the invoices presented to the jury, the record shows that Pentalpha intended to sell its deep fryers directly into the United States. Pentalpha itself affixed the American trademarks of Sunbeam, Montgomery Ward, and Fingerhut to the deep fryers, and it manufactured the deep fryers with North American electrical

fittings. Moreover, the invoices between Pentalpha and the three U.S. companies all identify delivery to U.S. destinations. In sum, this court does not perceive any fundamental error with the jury instructions in light of the record evidence.

B.

“Whoever actively induces infringement of a patent shall be liable as an infringer.” 35 U.S.C. § 271(b). In DSU Medical, which was decided after the jury verdict in this case, this court addressed the intent necessary to support a finding of induced infringement. Under that rule, the plaintiff must show that the alleged infringer knew or should have known that his actions would induce actual infringements. 471 F.3d at 1304. This court further stated that “[t]he requirement that the alleged infringer knew or should have known his actions would induce actual infringement necessarily includes the requirement that he or she knew of the patent.” Id. (emphasis added). This court’s opinion did not, however, set out the metes and bounds of the knowledge-of-the-patent requirement. Compare Insituform Techs., Inc. v. CAT Contracting, Inc., 161 F.3d 688, 695 (Fed. Cir. 1998) (“A crucial element of induced infringement is that the inducer must have actual or constructive knowledge of the patent.”) (emphasis added).*

The facts of DSU Medical did not require this court to address the scope of the knowledge requirement for intent. Instead, the court resolved conflicting case law setting forth both a requirement to knowingly induce infringement and to merely knowingly induce the acts that constitute direct infringement. Id. at 1306. In other

* SEB contends that this court need not reach this issue because the district court reduced the damages award by \$2 million based on SEB’s settlement with Sunbeam and thus eliminated all damages for pre-notice sales. The record indicates that the district court did not attribute the reduction to any particular Sunbeam sales. Therefore this court has no way to ascertain on appeal if the reduction precludes the knowledge and intent issue.

words, the court decided the target of the knowledge, not the nature of that knowledge. As Chief Judge Michel's concurring opinion noted, the record in DSU Medical showed that the alleged infringer had actual knowledge of the patent-in-suit. Id. at 1311. "Accordingly, the 'knowledge of the patent' issue [was] not before us." Id.

This court has made clear, however, that inducement requires a showing of "specific intent to encourage another's infringement." Broadcom Corp. v. Qualcomm Inc., 543 F.3d 683, 699 (Fed. Cir. 2008) (quoting DSU Medical, 471 F.3d at 1306). As other courts have observed, "specific intent" in the civil context is not so narrow as to allow an accused wrongdoer to actively disregard a known risk that an element of the offense exists. See Crawford-El v. Britton, 951 F.2d 1314, 1318 (D.C. Cir. 1991) (equating specific intent and deliberate indifference); Boim v. Holy Land Found. for Relief & Dev., 549 F.3d 685, 693 (7th Cir. 2008) (equating intentional misconduct with knowledge and deliberate indifference).

Pentalpha argues that the court in DSU Medical did not mean "knew or should have known of the patent" because the decision states "knew of the patent." See 471 F.3d at 1304. At the outset, this court notes that the Supreme Court has indicated, in a different civil context, that "deliberate indifference" is not necessarily a "should have known" standard. Farmer v. Brennan, 511 U.S. 825, 840 (1994). The latter implies a solely objective test, whereas the former may require a subjective determination that the defendant knew of and disregarded the overt risk that an element of the offense existed. See id. ("'[D]eliberate' is better read as implying knowledge of a risk, [but] the concept of constructive knowledge is familiar enough that the term 'deliberate indifference' would not, of its own force, preclude a scheme that conclusively presumed awareness from a

risk's obviousness." For example, an accused infringer may defeat a showing of subjective deliberate indifference to the existence of a patent where it shows that it was genuinely "unaware even of an obvious risk." Id. at 844. More importantly, and as courts have observed in a variety of settings, the standard of deliberate indifference of a known risk is not different from actual knowledge, but is a form of actual knowledge. See, e.g., United States v. Carani, 492 F.3d 867, 873 (7th Cir. 2007) ("Deliberate avoidance is not a standard less than knowledge; it is simply another way that knowledge may be proved."); Woodman v. WWOR-TV, Inc., 411 F.3d 69, 84 n.14 (2d Cir. 2005) ("We note that a party's knowledge of a disputed fact may also be proved through evidence that he consciously avoided knowledge of what would otherwise have been obvious [to] him.").

In this case, this court must determine whether the district court erred in denying Pentalpha's motion for JMOL where the record shows no direct evidence that Pentalpha had actual knowledge of the patent before April 9, 1998. The standard of review following the denial of JMOL is de novo. Fabri, 387 F.3d at 119. Nevertheless, this court must apply the same standard as the district court, which is deferential to the jury's verdict. AMW Materials Testing, Inc. v. Town of Babylon, 584 F.3d 436, 456 (2d Cir. 2009). A grant of JMOL is appropriate only where a reasonable jury would not have a legally sufficient evidentiary basis to find for the non-movant on the issue. Agrizap, Inc. v. Woodstream Corp., 520 F.3d 1337, 1342 (Fed. Cir. 2008) (citing Fed. R. Civ. P. 50(a)). For that reason,

[w]e will reverse the denial of a motion for judgment as a matter of law only when there is such a complete absence of evidence supporting the verdict that the jury's findings could only have been the result of sheer surmise and conjecture, or where there is such an overwhelming amount

of evidence in favor of the moving party that fair minded jurors could not reasonably arrive at a verdict against the movant.

SR Int'l, 467 F.3d at 118-119 (internal quotation marks and alterations omitted).

As just explained, a claim for inducement is viable even where the patentee has not produced direct evidence that the accused infringer actually knew of the patent-in-suit. This case shows such an instance. The record contains adequate evidence to support a conclusion that Pentalpha deliberately disregarded a known risk that SEB had a protective patent. The jury heard evidence that Pentalpha purchased an SEB deep fryer in Hong Kong and copied all but the cosmetics. The owner of a company related to Pentalpha testified that Pentalpha's engineer took a T-Fal deep fryer and used "the same ring that separates . . . the wall making it a cool touch unit and the construction, basically everything the same; thermostat, it was the same; the timer was the same, just a little bit different on the cosmetics of the outside appearance for the deep fryer." Again, the record shows that Pentalpha hired an attorney to conduct a right-to-use study, but did not tell him that it had based its product on SEB's product.

A failure to inform one's counsel of copying would be highly suggestive of deliberate indifference in most circumstances. Here, the jury also heard testimony that indicated that Pentalpha's president, John Sham, was well versed in the U.S. patent system and understood SEB to be cognizant of patent rights as well. Sham testified that he was the named inventor on 29 U.S. patents and that Pentalpha and SEB had an earlier business relationship that involved one of Pentalpha's patented steamer products. The record thus contains considerable evidence of deliberate indifference.

In contrast, Pentalpha did not produce any exculpatory evidence. As noted, proof of knowledge through a showing of deliberate indifference may be defeated where

an accused infringer establishes that he actually believed that a patent covering the accused product did not exist. But here Pentalpha did not argue that it or its employees actually believed that an SEB patent did not exist. Pentalpha's brief implies that it should be excused because the SEB deep fryer that it copied was not marked with a U.S. patent number. But Pentalpha does not argue that it relied on the lack of a mark to come to a belief that the deep fryer was not patented. And even if it had, such an argument would likely lack credibility unless it were supplemented by an explanation for why one would expect an SEB deep fryer purchased in Hong Kong to have U.S. patent markings.

This opinion does not purport to establish the outer limits of the type of knowledge needed for inducement. For instance, a patentee may perhaps only need to show, as Insituform suggests, constructive knowledge with persuasive evidence of disregard for clear patent markings, similar to the constructive notice requirement in § 287(a). See infra Part VII. This court does not set those boundaries now, just as it did not set them in DSU Medical. Here, the record establishes sufficient support for the conclusion that Pentalpha deliberately ignored the risk that SEB had a patent that covered its deep fryer. Thus, the jury's finding of inducement is justified, and the damage award, even if it was based on inducement alone, stands.

VII.

Pentalpha also challenges the damages award on the basis that, contrary to § 287(a), the record did not show that SEB marked "substantially all" of its deep fryers before July 10, 1998. Pentalpha also sought a reduction in damages, alleging that the

record shows that SEB withheld documents related to marking. The district court declined to reduce the award on either ground.

Under § 287(a) a patentee that sells its patented product within the United States must provide actual or constructive notice of the patent to the accused infringer to qualify for damages. Sentry Prot. Prods., Inc. v. Eagle Mfg. Co., 400 F.3d 910, 918 (Fed. Cir. 2005). Constructive notice requires the record to show that “the patentee consistently marks substantially all of its patented products.” Id.

At trial, an SEB executive, Gregers Infeld, affirmed that “to the best of [his] knowledge” SEB’s deep fryers were “always” marked and that SEB had a policy of marking its products. SEB also put into evidence one of its deep fryers with an unknown manufacturing date that had a sticker that listed the ’312 patent. On cross examination, however, Infeld testified that “there was a batch of products where the patent marking wasn’t on.” In addition to that testimony on cross, Pentalpha also relies heavily on Infeld’s admission, at his deposition, that he had no knowledge of SEB’s marking practices.

Once again, the district court properly denied Pentalpha’s motions for JMOL. The record supplies sufficient evidence to support the jury’s conclusion that SEB consistently marked substantially all of its deep fryers. Indeed, the record at trial did not even contain Infeld’s deposition testimony. In any event, the record supports the jury verdict.

Pentalpha contends that discovery misconduct justifies a reduction in the damage award. The discovery dispute at issue extends back five years before trial. In May of 2001, Pentalpha served discovery requests seeking, among other things,

documents relating to, and a Rule 30(b)(6) witness with knowledge of, SEB's patent marking practices. SEB produced only a one-page document: a picture of a sample sticker that listed the '312 patent. SEB objected to the Rule 30(b)(6) request. Pentalpha filed a motion to compel in response to SEB's objection. On October 5, 2001, Magistrate Judge Yanthis, who had been appointed to oversee discovery, refused to consider the motion to compel due to the parties' failure to meet and confer.

The marking issue arose again with Pentalpha's motion in limine, filed four-and-a-half years later, in which Pentalpha moved to exclude any evidence related to marking at trial. At the hearing on the motion, SEB's counsel asserted that there were "no other documents" concerning patent markings. Accordingly, the district court denied Pentalpha's motion, but noted that "[i]f witnesses on the stand say there are other documents, we've got a different issue before us."

At trial, Infeld testified that SEB's factories print the stickers found on its deep fryers based on a "list which shows [the factories] exactly what needs to be put on" and that the compilation of that list required a lot of paperwork. Pentalpha relied on that testimony in its post-verdict JMOL to argue that SEB did not produce documents related to marking, namely, the paperwork needed to compile the sticker list. The district court denied Pentalpha's motion on the ground that Pentalpha had delayed too long in seeking these documents and did not raise the issue immediately after Infeld's trial testimony. JMOL Opinion, 2007 WL 3165783, at *2.

The district court did not abuse its discretion in denying Pentalpha's motion for JMOL on discovery misconduct grounds. Pentalpha clearly forfeited the issue, if not during its four-and-a-half year silence before trial, then when it did not object during trial

following Infeld's testimony. Pentalpha cannot "fail to prepare [its] case[] adequately and then seek to remedy the defects after judgment." Korea First Bank v. Lee, 14 F. Supp. 2d 530, 532-33 (S.D.N.Y. 1998).

VIII.

Finally, Pentalpha appeals the district court's denial of its motion for new trial, which was based on SEB's attorney's allegedly improper argument during his closing argument on reasonable royalty damages. As a part of its damages case, SEB relied on a price list that listed its "cool wall" deep fryers at around \$40 per unit. But an SEB executive testified at trial that, although he thought SEB made a profit, SEB did not always sell its deep fryers at the list prices. Relying on that testimony, Pentalpha moved for JMOL at the close of evidence on SEB's claim for lost profits. The district court granted that motion, concluding that "[t]here's nothing in the record, in my view, from which [the jury] could say, 'this is what a single deep fryer sold for.'" The district court allowed SEB's claim for damages based on a reasonable royalty to reach the jury.

During summation on its reasonable royalty claim, SEB's attorney argued that SEB was making a "substantial profit" through its deep fryers, that it "got something close to [its] list prices", and that it "sought to obtain a gross margin of about 40 to 45 percent of the selling price." Pentalpha objected during and after the summation on the basis that the court had already rejected SEB's claim for lost profits. SEB's arguments with respect to a reasonable royalty, Pentalpha argued, were just another version of its baseless lost profit argument. The district court overruled Pentalpha's objections, but warned the jury that its "recollection of what the witness has said what a gross margin was and what a profit was in this case is what should control."

“[W]e will reverse a district court’s decision to grant or deny a motion for a new trial only for an abuse of discretion.” Song v. Ives Labs., Inc., 957 F.2d 1041, 1047 (2d Cir. 1992). Reasonable royalty damages postulate a hypothetical negotiation between a willing licensor and licensee at the time of infringement. Minco, 95 F.3d at 1119. “This hypothetical construct seeks the percentage of sales or profit likely to have induced the hypothetical negotiators to license use of the invention.” Id. In denying Pentalpha’s motion for a new trial, the district court held that although “the Court ruled that [lost profits] had not been shown with sufficient exactness . . . this does not mean that the jury could not consider SEB’s expectations of profits as part of a hypothetical negotiation.” JMOL Opinion, 2007 WL 3165783, at *7 (citing Georgia-Pacific Corp. v. U.S. Plywood Corp., 318 F. Supp. 1116, 1120 (S.D.N.Y. 1970)).

The district court did not abuse its discretion in declining to grant a new trial to Pentalpha based on the summation of SEB’s counsel. The record adequately supports SEB’s argument that it sought to obtain a gross margin of about 40 to 45 percent of the list price. There is a difference between an expectation of success and actual success at achieving a certain margin, and that difference is relevant in calculating the hypothetical negotiation. But this court sees no reason to preclude a jury from hearing attorney argument based on an expectation of success, particularly when Pentalpha had every opportunity to respond by highlighting to the jury that SEB’s stated gross margin was only an expectation and that, absent established commercial success at that rate, the hypothetical negotiation should result in a lower rate. SEB’s argumentative efforts to frame the hypothetical negotiation in its favor were not

improper. Moreover the district court did not abuse its discretion in denying a new trial on this basis.

IX.

SEB cross appeals the district court's decision to set aside its original awards of enhanced damages and attorneys' fees. Those awards were based on the jury's finding of willfulness, JMOL Opinion, 2007 WL 3165783, at *10-12, but the district court vacated them in light of this court's intervening opinion in Seagate, Enhanced Damages Opinion, 2008 WL 4540416, at *4.

In Seagate, this court set out a new test for willful infringement. It overruled the affirmative duty of due care set forth in Underwater Devices Inc. v. Morrison-Knudsen Co., 717 F.2d 1380, 1389-90 (Fed. Cir. 1983), and held that proof of willful infringement requires a patentee to show by clear and convincing evidence that, as a threshold matter, "the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent." 497 F.3d at 1371. The district court, proceeding under pre-Seagate law, instructed the jury that a potential infringer "has an affirmative duty of due care not to infringe" a known patent, and that failure to abide by that duty constituted willful infringement. The jury found Pentalpha's infringement willful.

In vacating its award of enhanced damages and attorneys' fees, the district court held:

The record contains evidence from which a jury could find that the Seagate standard of objective recklessness is satisfied. . . . The evidence regarding Pentalpha's willfulness, however, is not so one-sided or overwhelming to allow the Court to conclude that a jury, properly instructed under the new Seagate standard, was required to find, by clear and convincing evidence, willful infringement.

Enhanced Damages Opinion, 2008 WL 4540416, at *3. This court detects no reversible error in this analysis.

Importantly, SEB does not ask this court to order a new trial on willfulness. Had it asked, this court might have granted the request in light of the district court's conclusion that the willfulness verdict could have gone either way under the Seagate test. "An erroneous instruction, unless harmless, requires a new trial." Anderson v. Branen, 17 F.3d 552, 556 (2d Cir. 1994); see Voda v. Cordis Corp., 536 F.3d 1311, 1328 (Fed. Cir. 2008) (remanding and noting that the district court "may at its discretion assess Voda's evidence of willful infringement under the [intervening] Seagate standard to determine whether a new trial on willfulness is necessary"). Instead, SEB argues that the evidence on willfulness is so strong that the district court erred in vacating the enhanced damages and attorneys' fees awards. This court agrees with the district court that SEB's evidence is not so strong that SEB is entitled to a finding of willful infringement as a matter of law.

SEB also argues that there were factors other than willful infringement that warranted an award of attorneys' fees, focusing primarily on alleged litigation misconduct. But the district court apparently did not find any litigation misconduct sufficient to warrant an award of attorneys' fees. Enhanced Damages Opinion, 2008 WL 4540416, at *4. Moreover this court declines to impose attorneys' fees on a different basis than ordered by the district court.

Finally, SEB appeals the district court's modification of a pre-judgment attachment in light of its ruling with respect to Seagate, but makes no arguments in its

briefs with respect to that appeal. Any claim of error with respect to that modification is therefore waived.

X.

For the foregoing reasons, the judgment of the United States District Court for the Southern District of New York is affirmed.

AFFIRMED.

COSTS

Each party shall bear its own costs.

NOTE: This order is nonprecedential.

**United States Court of Appeals
for the Federal Circuit**

**THERASENSE, INC. (NOW KNOWN AS ABBOTT
DIABETES CARE, INC.)
AND ABBOTT LABORATORIES,**
Plaintiffs-Appellants,

v.

**BECTON, DICKINSON AND COMPANY,
AND NOVA BIOMEDICAL CORPORATION,**
Defendants-Appellees,

AND

BAYER HEALTHCARE LLC,
Defendant-Appellee.

2008-1511, -1512, -1513, -1514, -1595

Appeals from the United States District Court for the Northern District of California in consolidated case nos. 04-CV-2123, 04-CV-3327, 04-CV-3732, and 05-CV-3117, Judge William H. Alsup.

TIVO INC.,
Plaintiff-Appellee,

v.

**EHOSTAR CORPORATION,
EHOSTAR DBS CORPORATION,
EHOSTAR TECHNOLOGIES CORPORATION,
ECHOSPHERE LIMITED LIABILITY COMPANY,
EHOSTAR SATELLITE LLC,
AND DISH NETWORK CORPORATION,**
Defendants-Appellants.

2009-1374

Appeal from the United States District Court for the Eastern District of Texas in case no. 2:04-CV-01, Judge David Folsom.

ON MOTION

O R D E R

Oral arguments *en banc* for the above-noted appeals are scheduled for Tuesday, November 9, 2010, in courtroom 201. Appeal No. 2008-1511, *Therasense, et al. v. Becton Dickinson and Company, et al.*, will be argued at 10 a.m. Appeal No. 2009-1374, *Tivo, Inc. v. Echostar Corporation, et al.*, will be argued at 11 a.m. Counsel for each side for each appeal will be allowed 30 minutes to argue. Counsel for each party shall notify the clerk in

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writing by August 16, 2010, of the name of the attorney who will argue for that party.

FOR THE COURT

June 3, 2010

/s/ Jan Horbaly

Date

Jan Horbaly
Clerk

cc: Rohit Kumar Singla
Rachel Krevans
Bradford J. Badke
Seth P. Waxman
E. Joshua Rosenkranz
All Amicus Curiae Counsel
2008-1511, -1512, -1513,-1514,-1595
2009-1374

United States Court of Appeals for the Federal Circuit

2009-1368

WYETH HOLDINGS CORPORATION
and WYETH (now known as Wyeth LLC),

Plaintiffs-Appellants,

v.

Kathleen Sebelius, SECRETARY OF HEALTH AND HUMAN SERVICES,
DEPARTMENT OF HEALTH AND HUMAN SERVICES,
Dr. Margaret Hamburg, COMMISSIONER OF FOOD AND DRUGS,
UNITED STATES FOOD AND DRUG ADMINISTRATION,
David Kappos, UNDER SECRETARY OF COMMERCE FOR INTELLECTUAL
PROPERTY and DIRECTOR OF THE UNITED STATES PATENT AND TRADEMARK
OFFICE, and UNITED STATES PATENT AND TRADEMARK OFFICE,

Defendants-Appellees.

Randolph D. Moss, Wilmer Cutler Pickering Hale and Dorr LLP, of Washington, DC, argued for plaintiffs-appellants. With him on the brief were Brian M. Boynton and Brian H. Fletcher.

Howard S. Scher, Attorney, Appellate Staff, Civil Division, United States Department of Justice, of Washington, DC, argued for defendants-appellees. With him on the brief were Tony West, Assistant Attorney General, Channing D. Phillips, Acting United States Attorney, and Scott R. McIntosh, Attorney. Of counsel on the brief were David S. Cade, Acting General Counsel, Michael M. Landa, Acting Associate General Counsel, Eric M. Blumberg, Deputy Chief Counsel, and James R. Johnson, Associate Chief Counsel, Office of the General Counsel, Food and Drug Division, United States Department of Health and Human Services, of Rockville, Maryland. Of counsel was Drake S. Cutini, Office of Consumer Litigation, United States Department of Justice, of Washington, DC.

Appealed from: United States District Court for the District of Columbia

Judge Henry H. Kennedy, Jr.

United States Court of Appeals for the Federal Circuit

2009-1368

WYETH HOLDINGS CORPORATION
and WYETH (now known as Wyeth LLC),

Plaintiffs-Appellants,

v.

Kathleen Sebelius, SECRETARY OF HEALTH AND HUMAN SERVICES,
DEPARTMENT OF HEALTH AND HUMAN SERVICES,
Dr. Margaret Hamburg, COMMISSIONER OF FOOD AND DRUGS,
UNITED STATES FOOD AND DRUG ADMINISTRATION,
David Kappos, UNDER SECRETARY OF COMMERCE FOR INTELLECTUAL
PROPERTY and DIRECTOR OF THE UNITED STATES PATENT AND TRADEMARK
OFFICE, and UNITED STATES PATENT AND TRADEMARK OFFICE,

Defendants-Appellees.

Appeal from the United States District Court for the District of Columbia in case no. 08-CV-00981, Judge Henry H. Kennedy, Jr.

DECIDED: May 3, 2010

Before BRYSON and MOORE, Circuit Judges, and FOLSOM, Chief District Judge.^{*}

MOORE, Circuit Judge.

Wyeth Holdings Corporation and Wyeth LLC (Wyeth) appeal the judgment, pursuant to summary judgment, of the United States District Court for the District of Columbia rejecting Wyeth's challenge to the United States Food and Drug Administration's (FDA's) determination of the date on which the approval phase of its

^{*} The Honorable David Folsom, United States District Court for the Eastern District of Texas, sitting by designation.

phased regulatory review process begins for purposes of calculating patent term extensions. For the reasons discussed below, we affirm.

BACKGROUND

I. Regulatory Background

New animal drugs must receive FDA approval before they can be commercially marketed. Because the regulatory process often spans several years, in 1988 Congress provided for patent term extensions to restore patent life lost during FDA's review of new animal drugs. See Generic Animal Drug and Patent Term Restoration Act, Pub. L. No. 100-670, 102 Stat. 3971 (1988). Regulatory review proceeds in two phases: a testing phase followed by an approval phase. The shift from the testing to the approval phase occurs when a sponsor "initially submit[s]" an application for approval of a new animal drug. See 35 U.S.C. § 156(g). A patent holder may obtain an extension equal to half of the duration of the testing phase plus the entire duration of the approval phase, not to exceed five years, exclusive of any regulatory review period occurring before the patent issues. See 35 U.S.C. § 156(c), (g)(6). Thus, the date on which a sponsor initially submits an application marks the beginning of the approval phase and directly affects the length of a patent term extension. At issue on appeal is the proper determination of that date in FDA's phased review process.

The first phase of regulatory review, the testing phase, begins when the sponsor obtains FDA's permission to begin clinical testing of the drug or initiates a major health or environmental effects test, whichever is earlier. See 35 U.S.C. § 156(g)(4)(B)(i); see also 21 C.F.R. § 60.22(d)(1). During the testing phase, the sponsor submits investigational data to FDA, which FDA files in an Investigational New Animal Drug (INAD) file.

The testing phase ends, and the approval phase begins, when the sponsor submits a New Animal Drug Application (NADA) to FDA. See 35 U.S.C. § 156(g)(4)(B)(ii); see also 21 C.F.R. § 60.22(d)(2). The NADA must contain the information required by 21 U.S.C. § 360b(b) and the corresponding FDA regulation, 21 C.F.R. § 514.1(b). Section 360b(b) requires, among other things, full reports of investigations concerning the safety and efficacy of the drug, a description of the methods and facilities used to manufacture the drug, and a description of a method to determine the quantity of the drug that winds up in food. 21 U.S.C. § 360b(b)(1).

In the traditional regulatory review process, determining the date that a sponsor submits a NADA is straightforward: the sponsor gathers all of the information required by § 360b(b) and sends it all to FDA in a single submission, and this is the date that the application is initially submitted. FDA may require additional information from the sponsor in support of the NADA; but minor amendments will not affect the “initially submitted” date or the onset of the approval phase.

In 1989, FDA began offering sponsors the choice of “phased review.” In phased review, rather than gathering the information required by § 360b(b) and submitting it to FDA in one package, the sponsor may submit various technical sections directly to the section of FDA’s Center for Veterinary Medicine (CVM) responsible for evaluating the technical material. FDA treats technical sections as submissions to the INAD file. As of 1995, FDA recognized six technical sections: (1) Effectiveness, (2) Environmental Safety, (3) Manufacturing Methods and Controls, (4) Public Safety, (5) Residue Chemistry and Regulatory Methods, and (6) Target Animal Safety. Center for Veterinary Medicine Document Submission Information – An Update, 14 (Apr. 1995, as

modified Nov. 1995) (CVM Phased Review Policy). FDA reviews the technical sections on a concurrent as-received basis. In addition, “[w]ith prior agreement, the sponsor may request review of less than one of the [technical sections] listed above.” Id. at 14. Thus, sponsors may submit technical sections as they are completed or, by agreement, they may submit “useful pieces of technical sections.” Id. at 13. When FDA completes its review of a technical section, it sends the sponsor a “complete letter” for that section. Once the sponsor compiles all of its complete letters, it may submit an administrative NADA. The administrative NADA incorporates by reference all of the complete letters and contains additional administrative information. In phased review, FDA marks the beginning of the approval phase as the date that the sponsor submits the administrative NADA.

FDA described phased review as a more “streamlined” process than traditional review. CVM Phased Review Policy at 2. It summarized the choice between traditional and phased review as follows:

If the sponsor wants to work interactively with each specialty group within the Office of New Animal Drug Evaluation, then the data should be submitted to the INAD for review. If the sponsor wants to submit all the information at one time and receive a coordinated, comprehensive response on the adequacy of all the data, the sponsor should submit an NADA.

Id. at 1. FDA further explained that in phased review, submissions would not be funneled through a primary reviewer; the sponsor would retain responsibility for ensuring the compatibility of the technical sections. Id. at 2. FDA further explained that “[t]he interrelationships between supporting data should be thoughtfully considered when the sponsor elects to request phased review.” Id. at 17. FDA indicated that phased review “should speed the drug development process.” Id. at 2.

When a sponsor opts for phased review, it may switch over to traditional review by filing a NADA. As explained by FDA, “[m]ost sponsors find it useful to use the more fluid INAD structure during early development and, as more of the data is acceptable to CVM [Center for Veterinary Medicine], an NADA is filed.” Id. at 2. The NADA may incorporate by reference any complete letters that the sponsor has already received. Id.

Once FDA receives a NADA (either traditional or administrative), it evaluates the application and determines whether to approve the drug. Filing an administrative NADA will generally result in a much shorter approval period because FDA has already completed review of the technical sections.

II. Cydectin

Wyeth sought and received FDA approval to market Cydectin for the treatment and control of internal and external parasites in beef and dairy cattle. The regulatory review period for Cydectin spanned nearly eight years. It began on April 5, 1990, when at Wyeth’s request, FDA established an INAD file for Cydectin, marking the beginning of the testing phase. Wyeth submitted various investigational information to FDA, including information on drug formulation and protocols for clinical studies. On August 8, 1995, Wyeth opted for phased review and submitted its first technical section, which addressed Residue Chemistry. In 1995 and 1996, Wyeth submitted technical sections concerning Effectiveness, Manufacturing, Public Safety, and Target Animal Safety. By agreement with FDA, Wyeth submitted its final technical section, Environmental Safety, in three modules. Wyeth submitted the first of these modules on August 14, 1996. It is unclear when Wyeth submitted the second and third modules. FDA ultimately approved each section, and by January 13, 1998, Wyeth had received all of its complete letters.

Wyeth submitted an administrative NADA that same day. FDA approved Wyeth's NADA 16 days later on January 28, 1998.

The active ingredient in Cydectin, moxidectin, is claimed in U.S. Patent No. 4,916,154 (the '154 patent), which issued on April 10, 1990.¹ On March 27, 1998, Wyeth sought a patent term extension for the '154 patent based on the regulatory review period for Cydectin. According to Wyeth, this was the first patent term extension request based on a NADA submitted via phased review. Wyeth attached a memorandum to its request setting forth its position that it initially submitted a NADA for Cydectin on August 8, 1995, when it submitted its first technical section (Residue Chemistry). Wyeth argued in the alternative that it initially submitted a NADA no later than August 14, 1996, when it submitted one component of its last technical section (Environmental Safety).

The United States Patent and Trademark Office (PTO) requested FDA's assistance in determining whether Cydectin had been subject to regulatory review within the meaning of 35 U.S.C. § 156(g). FDA informed the PTO that Cydectin had been subject to regulatory review within the meaning of § 156(g).² FDA further informed the PTO that Cydectin experienced a regulatory review period of 2,857 days, beginning on April 5, 1990, and ending on January 28, 1998. FDA stated that of this review period, 2,841 days occurred during the testing phase and 16 days occurred during the approval phase. Based on these numbers, the PTO calculated a patent term extension of 1,434 days, representing one half of the testing phase (exclusive of six

¹ The '154 patent is assigned on its face to Wyeth's predecessor, American Cyanamid Company, referred to herein as Wyeth.

days occurring prior to the issuance of the '154 patent) plus the entire approval phase (calculated as $(2,841 - 6)/2 + 16$).

Wyeth asked FDA to revise its determination of the regulatory review period. Wyeth reiterated its position that it had initially submitted its NADA on August 8, 1995, when it submitted its first technical section (Residue Chemistry). Wyeth reasoned that at that point, FDA had sufficient information to commence its review.

FDA denied Wyeth's request. It set forth its position that "the approval phase for purposes of patent term extension begins when the marketing application is complete, including all technical sections and the CVM complete letters." J.A. 232. It explained that "[a]lthough this approach can result in a very short approval phase, it is most consistent with the idea that alternative drug development and review approaches are intended to permit the applicant to respond to FDA input as the application is developed, making FDA's review more efficient, and shortening the time required for review of the application." Id. FDA further explained that the technical sections are submitted to the INAD file, not to the NADA file, and thus FDA conducts its review of these components as part of the testing phase. FDA therefore concluded that the approval phase in phased review begins with the submission of an administrative NADA. Id.

Wyeth filed a complaint in the United States District Court for the District of Columbia challenging FDA's interpretation of the date that its NADA was initially submitted and seeking injunctive and declaratory relief under the Administrative Procedure Act (APA), 5 U.S.C. §§ 701-706. FDA moved to dismiss or alternatively for

² The PTO initially requested information from FDA on May 5, 1998. FDA,

summary judgment, and Wyeth cross-moved for summary judgment. The district court granted FDA's motion and entered judgment for FDA. Wyeth appeals that judgment. We have jurisdiction pursuant to 28 U.S.C. § 1295(a)(1).

DISCUSSION

We review the district court's grant of summary judgment de novo, applying the same standard as the district court. Immunocept, L.L.C. v. Fulbright & Jaworski, L.L.P., 504 F.3d 1281, 1286 (Fed. Cir. 2007). "Summary judgment is appropriate when there is no genuine issue as to any material fact and the moving party is entitled to judgment as a matter of law." Id.

We review FDA's decisions under the APA. See Mylan Labs., Inc. v. Thomson, 389 F.3d 1272, 1279 (D.C. Cir. 2004). We must uphold FDA's decision unless it is "arbitrary, capricious, an abuse of discretion, or otherwise not in accordance with law." 5 U.S.C. § 706(2)(A).

This appeal concerns statutory interpretation, a matter of law that we review de novo. See Glaxo Operations UK Ltd. v. Quigg, 894 F.2d. 392, 395 (Fed. Cir. 1990). "Ordinarily we review an agency's interpretation of a statute it is charged with implementing under the familiar and deferential two-part framework of Chevron U.S.A. Inc. v. Natural Res. Def. Council, Inc., 467 U.S. 837, 104 S. Ct. 2778, 81 L.Ed.2d 694 (1984)." Mylan, 389 F.3d at 1280.

Under Chevron, we first determine "whether Congress has directly spoken to the precise question at issue." Chevron, 467 U.S. at 842. If the intent of Congress is clear, we must give effect to the unambiguously expressed intent of Congress. Id. at 843.

however, did not respond. The PTO sent an additional request on September 10, 2003.

However, “[i]f the statute is silent or ambiguous with respect to the specific issue, the question for the court is whether the agency’s answer is based on a permissible construction of the statute.” Id.

I. Chevron Step 1

We first address whether Congress spoke to the precise issue, specifically, whether the date that a sponsor submits an administrative NADA marks the beginning of the approval phase when the sponsor opts for phased review.

The district court concluded that the date an application is initially submitted for purposes of 35 U.S.C. § 156(g) is ambiguous. The court noted that the parties agreed that the approval phase begins when an application is initially submitted under 21 U.S.C. § 360b(b), but they disagreed over the proper interpretation of when an application is initially submitted. The court explained that the parties emphasized different text in support of their positions, with FDA contending that no “application” exists prior to the submission of an administrative NADA, and Wyeth contending that an application is “initially submitted” upon submission of the first technical section. Wyeth, 607 F. Supp. 2d at 31. The court determined that both parties had advanced plausible interpretations. Id. The court reviewed the text of § 156(g) and determined that it contained “no clear indication of Congressional intent because the statute defines neither ‘application’ nor ‘initially submitted.’” Id. The court looked to the text of 21 U.S.C. § 360b(b) and determined that although it set forth requirements for the parts of an application, “this section does not define ‘application’ or speak to the issue of when an ‘application’ is ‘initially submitted.’” Id. The court also reviewed the legislative history and noted that it provided little clarity. Id. at 32. The court concluded that in light of its text, context, and legislative history, § 156(g) was ambiguous.

On appeal, Wyeth argues that the statutory text and legislative history demonstrate that an application is initially submitted when a sponsor submits its first technical section. Wyeth contends that the ordinary meaning of the term “initially” makes clear that an application is initially submitted before it is complete, noting that § 156(g) does not require the sponsor to completely or finally submit an application. Wyeth asserts that the legislative history supports its position, citing to a House Report that states: “As long as the application was complete enough so that agency review could be commenced, it would be considered to be ‘initially submitted.’” H.R. Rep. 98-457, pt. 1, 44 (1984). Wyeth thus asserts that an application is initially submitted when a sponsor submits its first technical section because at that point, FDA may commence its review. Wyeth argues in the alternative that, at the very latest, an application is initially submitted when the sponsor submits its last technical section because, according to Wyeth, at that point, FDA has received all of the parts of an application required by 21 U.S.C. § 360b(b). Finally, as discussed in the next section, Wyeth argues that even if the text does not unambiguously support one of its interpretations, we should not defer to FDA’s interpretation because it is not reasonable.

FDA argues that the statutory text compels FDA’s interpretation that an application is initially submitted when the sponsor files an administrative NADA. FDA explains that, contrary to Wyeth’s point of view, the date that it may commence review of individual technical sections is irrelevant. According to FDA, for purposes of 35 U.S.C. § 156(g), what matters is the date that FDA may commence review of an application meeting the requirements of 21 U.S.C. § 360b(b). FDA asserts that the administrative NADA is the first document submitted to FDA that contains all of the parts

required by 21 U.S.C. § 360b(b). Thus, it argues that prior to the submission of an administrative NADA, the sponsor has not initially submitted an application for purposes of 35 U.S.C. § 156(g). In the alternative, FDA asserts that even if we conclude that the statutory text is ambiguous, we should defer to its interpretation because it is reasonable.

We agree with the district court that the plain language does not clearly indicate when an application is initially submitted under 35 U.S.C. § 156(g). Section 156(g) defines the regulatory review period as the sum of two periods, which the parties refer to as the testing phase and the approval phase. See 35 U.S.C. § 156(g)(1)(B)(ii). The testing phase covers:

the period beginning on the earlier of the date a major health or environmental effects test on the drug was initiated or the date an exemption under subsection (j) of section 512 [21 U.S.C. § 360b] became effective for the approved new animal drug product and ending on the date an application was initially submitted for such animal drug product under section 512.

Id. at § 156(g)(4)(B). The approval phase covers:

the period beginning on the date the application was initially submitted for the approved animal drug product under subsection (b) of section 512 and ending on the date such application was approved under such section.

Id. Section 156(g) does not define the term application, however, it refers to an application initially submitted under 21 U.S.C. § 360b(b). Thus, for purposes of § 156(g), an application must contain the information required by 21 U.S.C. § 360b(b). Section 360b(b) requires that an application for a new animal drug include certain categories of information, such as information on drug safety, efficacy, and manufacturing.

In light of this requirement, we reject Wyeth's argument that § 156(g) unambiguously indicates that an application is initially submitted when a sponsor submits its first technical section. A technical section addresses only one substantive area, such as Residue Chemistry. A technical section does not contain all of the information required by § 360b(b) and therefore it can not constitute "an application" for purposes of 35 U.S.C. § 156(g). This interpretation conflicts with the statutory language.

Although 21 U.S.C. § 360b(b) lists the required parts of an application, it does not indicate whether an application must contain or reference all of the required information in a single document (as asserted by FDA) or whether an application may be an assemblage of technical sections submitted by the sponsor (as asserted by Wyeth). Contrary to Wyeth's assertion, the legislative history by no means renders the statutory language unambiguous. We agree with the district court that both parties advanced plausible interpretations, and we conclude that § 156(g) is ambiguous.³

II. Chevron step 2

"If we conclude that 'Congress either had no intent on the matter, or that Congress's purpose and intent is unclear,' then we proceed to step two, in which we ask 'whether the agency's interpretation is based on a permissible construction of the statutory language at issue.'" Cooper Techs. Co. v. Dudas, 536 F.3d 1330, 1338 (Fed. Cir. 2008) (citations omitted).

³ Notably, Congress enacted § 156(g) in 1988, before FDA began offering sponsors the option of phased review. See Generic Animal Drug and Patent Term Restoration Act, Pub. L. No. 100-670 (1988) (adding 35 U.S.C. § 156(g) to the statute).

Because the text of § 156(g) is ambiguous with regard to when an application is initially submitted, we must determine whether FDA's interpretation falls within the permissible range of interpretations left open by the statute. As an initial matter, we note that our inquiry is on the permissibility of FDA's interpretation, not Wyeth's. Wyeth's assertion that an application should be deemed initially submitted when the sponsor submits its final technical section may be reasonable if, as Wyeth asserts, FDA has received all of the information required by § 360b(b).⁴ However, "a court must defer to an agency's reasonable interpretation of a statute and must not substitute its own judgment for that of the agency even if the court might have preferred another interpretation and even if the agency's interpretation is not the only reasonable one." Wheatland Tube Co. v. United States, 495 F.3d 1355, 1360-61 (Fed. Cir. 2007). We thus limit our analysis to the permissibility of FDA's interpretation.

The district court determined that FDA's "construction runs true to the text and defines 'initially submitted' in a manner 'that is reasonable in light of the legislature's revealed design.'" Wyeth, 607 F. Supp. 2d at 33 (citation omitted). It therefore concluded that FDA's interpretation was not an impermissible construction of the statute. Id.

⁴ We note that, at least in the present case, Wyeth's assertion that FDA has all of the information required by 21 U.S.C. § 360b(b) when the sponsor submits its final technical section may not be true. Wyeth states that it submitted its final technical section on August 14, 1996. However, per agreement with FDA, Wyeth submitted its final technical section as three modules. It submitted the first module on August 14, 1996, and it is not clear when it submitted the remaining two modules. Thus, we do not agree that a sponsor necessarily submits all of the information required by § 360b(b) when it submits its final technical section (or more specifically, as here, when it submits the first of three modules of its final technical section).

On appeal, Wyeth argues that FDA's interpretation impermissibly contravenes the purpose of § 156(g). Wyeth notes that Congress sought to provide "[a] year-for-year matching extension . . . for any time the drug approval process that the drug spends awaiting a decision by the FDA." H.R. Rep. 98-457, pt. 2, 4 (1984). Wyeth explains that Congress initially considered providing patentees with a day-for-day extension for the entire regulatory review period, but later struck a balance between the competing interests of pioneer and generic drug manufacturers by dividing the review period into two phases and providing a half-time extension for the testing phase. Wyeth argues that FDA's interpretation shifts time from the approval phase to the testing phase, upsetting the balance.

FDA asserts that this is the trade-off for choosing the more fluid review process. Phased review allows sponsors to "work interactively with each specialty group within the Office of New Animal Drug Evaluation." CVM Review Policy at 1. A sponsor may seek review of individual technical sections or "useful pieces of technical sections," rather than delaying review until all information required by § 360b(b) is ready for submission. *Id.* at 13. By contrast, in the more regimented traditional review, "all submissions were funneled into the Center through a 'primary' reviewer who coordinated the Center's interaction with, and responses to, the sponsor." *Id.* at 2. As a result of its more "streamlined" process, phased review provides for potentially faster approval and market entry. However, because the sponsor works directly with individual CVM sections in phased review, FDA's first notice that a sponsor believes it has submitted all of the parts required by § 360b(b) occurs when the sponsor submits an administrative NADA. At that point, according to FDA, it has an application that it

may review for approval. Under FDA's interpretation, the approval phase is quite short—here, 16 days. Treating these days as part of the testing rather than approval phase results in a shorter patent term extension; however, if phased review does result in a faster overall process, there is less delay in the process and quicker market entry. A sponsor weighs these factors and decides whether to pursue phased or traditional review.

FDA further notes that a sponsor may choose to pursue the more fluid phased review during early development and file a traditional NADA later in the process. Id. at 2. A traditional NADA may reference technical sections that FDA has already reviewed in the phased review program.

We conclude that FDA's interpretation is permissible. Section 156(g) created a range of ambiguity by not explicitly defining the term "application," leaving that term open to interpretation. FDA's interpretation tracks the requirements of 21 U.S.C. § 360b(b). As explained by FDA, the administrative NADA is the first document containing or referencing all of the parts required by 21 U.S.C. § 360b(b). Thus, it is permissible to characterize the administrative NADA as the first application submitted for purposes of 35 U.S.C. § 156(g). Because the administrative NADA is the first application submitted, it is reasonable to interpret the date that it is submitted as the "initially submitted" date. Prior to the submission of an administrative NADA, no application has been submitted, initially or otherwise. Thus, FDA's interpretation "reasonably resolves the ambiguity in applying the relevant statutes to a factual situation not fully foreseen or provided for by the Congress when it enacted the statutes or the FDA when it promulgated regulations." Mylan, 389 F.3d at 1284. It is permissible to

interpret § 156(g) to mean that “an application” is “initially submitted” when a sponsor submits an administrative NADA in phased review.

Wyeth’s policy considerations regarding the shift in time between the testing phase and the approval phase do not require a different result. Whatever balance may have been struck envisioned traditional review, not phased review. A sponsor may now choose to work more interactively with FDA using the more fluid phased review process and submitting information, including testing data, to FDA on a rolling basis. It follows that with this change in the review process, the respective lengths of the testing phase and the approval phase have also changed.

III. APA Challenge

Wyeth argues that even if FDA’s interpretation is permissible, it is arbitrary and capricious because it conflicts with FDA’s interpretation of the approval phase for new human drugs in FDA’s “fast track” program. The district court determined that FDA’s interpretation was not arbitrary and capricious for the same reasons that it concluded FDA’s interpretation was permissible under Chevron. Wyeth, 607 F. Supp. 2d at 33. In addition, the court noted that Wyeth’s claim that FDA’s treatment of animal drugs was inconsistent with its treatment of human drugs had “no merit” because phased review is not available for human drugs. Id. at 33 n.9.

The fast track program differs from the phased review program in many respects. First, fast track sponsors must submit “a schedule for submission of information necessary to make the application complete.” 21 U.S.C. § 356(c)(1)(A). If FDA agrees, then the sponsor may submit portions of its application on a rolling basis. Guidance for Industry, Fast Track Drug Development Program – Designation, Development, and Application Review, 13, available at

<http://www.fda.gov/downloads/Drugs/GuidanceComplianceRegulatoryInformation/Guidances/UCM079736.pdf> (Fast Track Guidance). When the sponsor submits all of the required information, it informs FDA that its application is complete. Id. at 14. FDA marks the beginning of the approval phase when it receives notice that the fast track application is complete. FDA asserts that this is consistent with its interpretation of the approval phase in phased review, which also begins on the date that FDA first receives notice that the application is complete. We perceive no inconsistency between FDA's interpretations. We conclude that the FDA interpretation challenged by Wyeth is not arbitrary and capricious.

CONCLUSION

For reasons stated above, we affirm the judgment of the district court.

AFFIRMED



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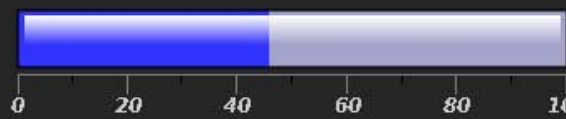
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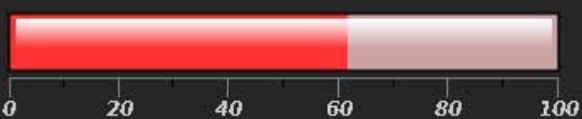
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UPR allowance rate, including RCEs = 45.6%



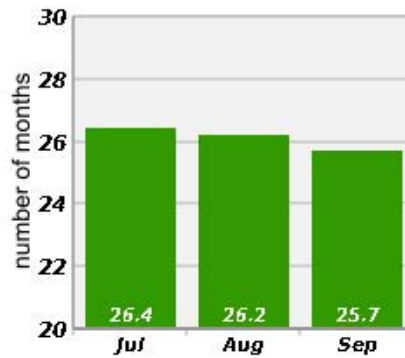
UPR allowance rate, without RCEs = 61.6%

New Pendency-related Measures





September 2010



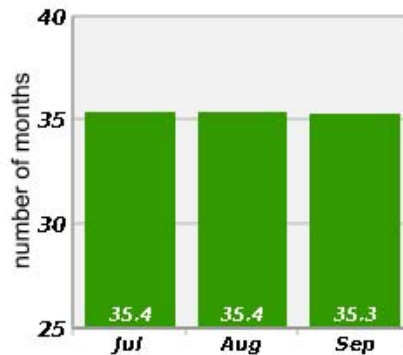
Last quarter

First Office Action pendency is the average number of months from the patent application filing date to the date a First Office Action is mailed by the USPTO. Our goal is to reduce first action pendency to an average of 10 months by 2015. The term "pendency" refers to the fact that the application is pending or awaiting a decision. This measure of First Office Action Pendency includes the time until a first action by the USPTO, as well as any time awaiting a reply from an applicant to submit all parts of their application. The first action pendency number displayed, measured in months, is the average for all applications that have a First Office Action mailed over a three-month (one quarter) period.

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September 2010



Last quarter

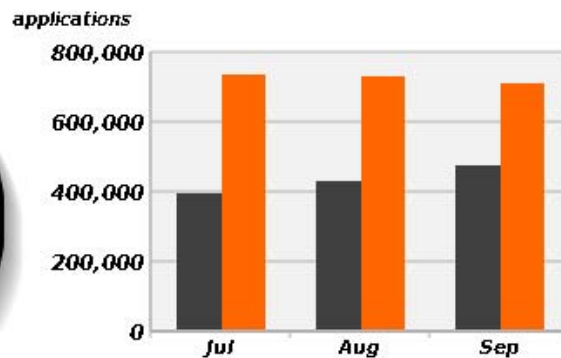
This is the measure of total pendency, as traditionally measured. Historically, pendency has been measured as the average number of months from the patent application filing date to the date the application has reached final disposition (e.g., issued as a patent or abandoned) which is called a "disposal". Our goal is to reduce Traditional Total Pendency to an average of 20 months by 2015. This pendency includes the time periods awaiting action by the USPTO, as well as any time awaiting reply from an applicant. The traditional total pendency measure treats the abandonment for the filing of an RCE as a disposal, and stops the pendency clock at that point for that application.

The Traditional Total Pendency pendency number displayed, measured in months, is the average for all applications which are "disposed" over a three-month period.

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September 2010



Backlog vs. applications received Last quarter

● Applications received ● Application backlog

The patent application backlog is the number of new utility, plant, and reissue (UPR) patent applications in the pipeline at any given time which are awaiting a First Office Action by the patent examiner.

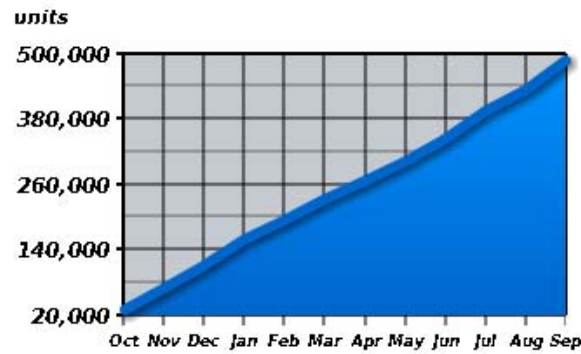
The applications received is our utility, plant, and reissue (UPR) filings, or incoming patent application workload. The bar chart reflects the cumulative number of applications received this fiscal year in each of those five months.

Note: The September 30 UPR filings are preliminary and will be finalized in the October 2010 Data Visualization Center

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Cumulative for fiscal year, to September 2010

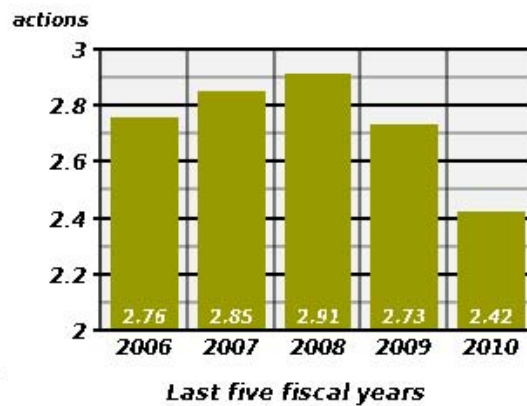


Fiscal year 2010

The utility, plant, and reissue (UPR) patent application production units are a measure of the patent examination work completed by the USPTO. A production unit effectively represents the complete examination of a single application. The production units are the total first office actions plus the total disposals completed, divided by two. The number of production units displayed are the actual number of units completed in the current fiscal year.

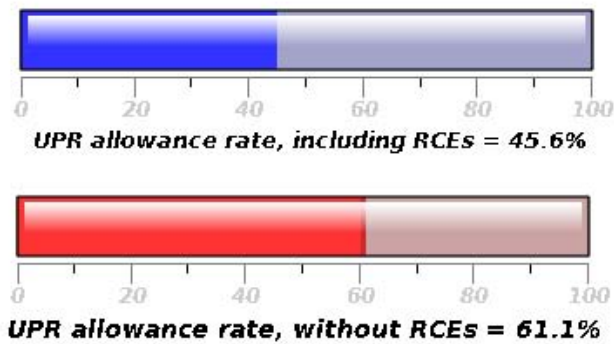


Fiscal year 2010, as of September 30



The number of actions per disposal reflects the average number of examiner actions leading to the final disposition of a patent application (allowed, abandoned, or on appeal). For example, if an application receives a first office action, a final office action, and is then allowed, this application would have three actions per disposal. The reported number is determined by calculating the cumulative total actions and dividing by the cumulative total disposals over the fiscal year. This number includes the abandonment for a Request for Continued Examination (RCE) as a disposal.

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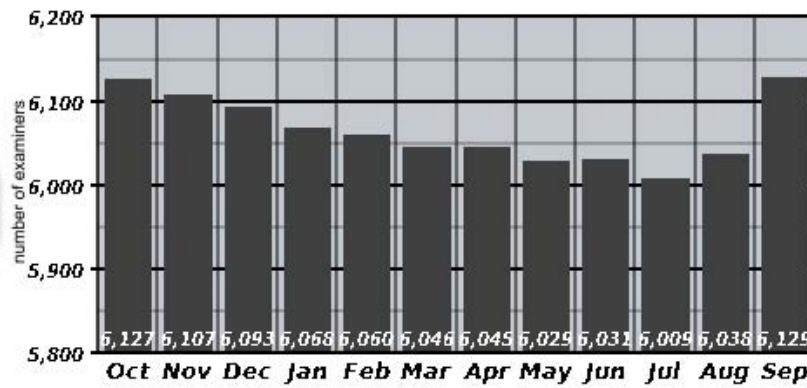
September 2010

Allowed utility, plant, and reissue (UPR) patent applications are applications that have been examined by USPTO patent examiners and determined to be eligible for a patent. The allowance rate, or percent allowed, is calculated by dividing the number of applications allowed by the number of applications disposed. The allowance rate "including RCEs" includes the abandonments for requests for continued examination (RCEs) in the disposals. This is the traditional way the allowance rate has been reported. The allowance rate "without RCEs" does not include the abandonments for RCEs in the disposals.

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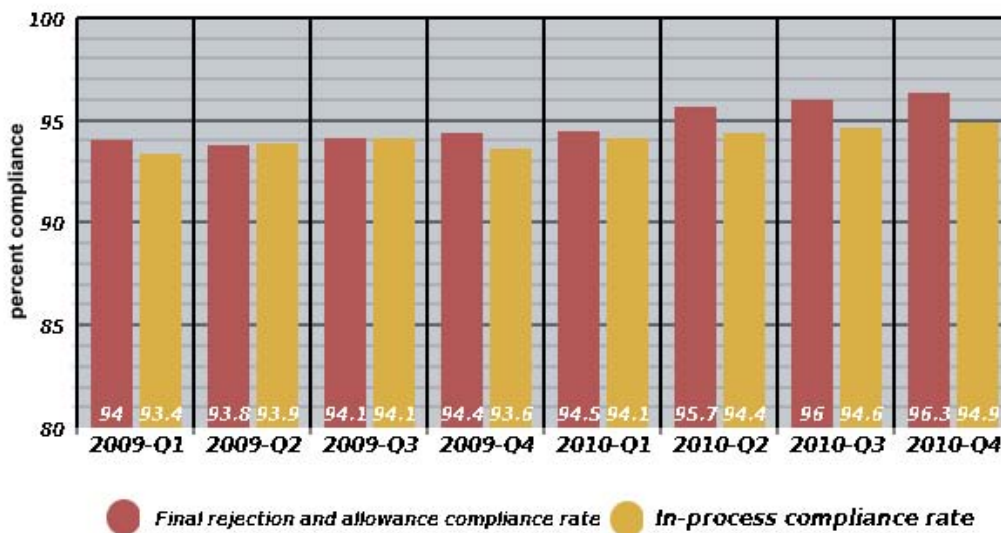
September 2010



This is the number of patent examiners at the USPTO, not including design patent examiners.

Fiscal year 2010

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The final rejection and allowance compliance rate focuses on the correctness of the examiner's overall determination of the patentability of the claims, in the decision to finally reject claims or allow an application.

The non-final "in-process" compliance rate focuses on the quality of examination early in prosecution, rather than on the end-product.

These quality assessments are determined by a review of a random selection of applications. The number reflects the percentage of reviewed applications in which no deficiency is found in the examiner's determinations for the past 12 months.



**September
2010**

Pendency including RCE pendency is the average number of months from the patent application filing date to the ultimate disposal of the application, irrespective of any intermediate abandonments due to the filing of a Request for Continued Examination (RCE). This is unlike the traditional total pendency measure which treats the abandonment for the filing of an RCE as a disposal and stops the pendency clock at that point.

This pendency number displayed, measured in months, is the average for all applications meeting the above criteria which are "disposed" over a three-month period.

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Inventory Position represents an estimate of the number of months it would take the current patent examining staff to complete a first Office action on every unexamined application currently in the USPTO inventory. In other words, if no new applications were filed, this measure estimates how long it would take to complete a First Office Action on all pending unexamined new applications.

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September 2010

Pendency from application filing to Board Decision is the average number of months it takes to receive a decision by the Board of Patent Appeals and Interferences (BPAI), measured from the date of filing an application through to the BPAI decision date. This measure only includes applications that have been appealed to and decided by the BPAI.

This pendency number displayed, measured in months, is the average for all applications meeting the above criteria which receive a decision by the BPAI over a three-month period.

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September 2010

Pendency of Requests for Continued Examination (RCEs) is the average number of months from the date of filing an application to the ultimate disposal for only those applications for which one or more RCEs were filed. This differs from "Traditional Total Pendency including RCEs" because this measure does not include applications which reach disposal without an RCE ever having been filed. This measure does not include any application with a Continuation, Continuation-in-Part, or Divisional in the chain of applications.

This pendency number displayed, measured in months, is the average for all applications meeting the above criteria which are "disposed" over a one-month period.

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September 2010

Pendency of Continuation Applications is the average pendency in months of applications filed as Continuations of a parent application, measured from the filing date of the parent application. If the continuation is a continuation in a chain of continuing applications, the pendency is measured from the filing date of the earliest application in the chain. This measure only includes continuations, and does not include any application with an RCE, Continuation-in-Part, or Divisional in the chain of applications.

This pendency number displayed, measured in months, is the average for all applications meeting the above criteria which are "disposed" over a one-month period.

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September 2010

Pendency of Divisional Applications is the average pendency in months of applications with at least one Divisional application filed in a chain of applications. The pendency is measured from the filing date of the parent application to the disposal of the last application in the chain. If the divisional is a divisional or continuation of another divisional or continuation application, the pendency is measured from the filing date of the earliest application in the chain.

This pendency number displayed, measured in months, is the average for all applications meeting the above criteria which are "disposed" over a one-month period.

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Director's Forum: David Kappos' Public Blog

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Wednesday Oct 13, 2010

Reflections on the USPTO Dashboard

It is great to see the comments we've received since posting the initial [Data Visualization Center](#) dashboard on September 7. Beginning this month, the USPTO will provide updates to the dashboard on or about the 10th of each Month.

The September data we are posting presently shows a significant decrease in the backlog – down to 708,000 -- coupled with improvements in quality and increases in our work output across the board – from allowances to rejections to interviews, to name a few items. In short, we are doing more of everything and we think that is a good thing.

All in all, Fiscal Year 2010 was a remarkable year for our Patents team and the September dashboard data reflects that. During the last 12 months, patent processing systems were closely studied to determine where improvements could be made to provide the greatest increase in efficiency, examination capacity, and workflow. Patents then executed these improvements across the board.

The Compact Prosecution concept is a collection of changes in examination practice and culture. They encourage examiners to find the core issues in a patent application and resolve those issues early in prosecution. The result is reflected in the September data postings which show a decrease in actions per disposal.

Overall in FY 2010, the allowance rate increased to 45.6%, compared to an allowance rate of 41.3% in FY 2009. In addition, actions per disposal decreased to 2.42 from 2.73 in FY 2009. Furthermore, as a result of a concerted campaign to begin turning the tide on our backlog, the patent application backlog dropped from 718,835 at the end of FY 2009, to 708,535 at the end of FY 2010. Pretty remarkable considering that application filings were up about 4%, that our examiner workforce shrunk and we were unable to authorize overtime for most of the year due to funding challenges, and that we affirmatively gave our examiners *more* time to examine each application as a clear signal that quality is our first priority.

Finally, the September figures show that there has been a further improvement in patent examination quality. The final rejection and allowance compliance rates (our existing quality measures previous to our announcement just last week of 5 new quality measures we will use starting immediately) increased from 94.4% in FY 2009 to 96.3% in FY 2010, and the non-final in-process compliance rate increased from 93.6% in FY 2009 to 94.9% in FY 2010.

So, while we still have a lot of work to do, I think we are on the right path. I'll look forward to reviewing the monthly updates to the [Dashboard](#), and I hope you will review them also each month to keep up with our progress and challenges at USPTO.

Posted at [10:31AM Oct 13, 2010](#) in [patents](#) | [Comments\[0\]](#)

Sunday Oct 10, 2010

National Trademark Expo to be Held October 15-16 at USPTO

If you are in the Washington, D.C., area on October 15 and 16, be sure to stop by the United States Patent and Trademark Office main campus in Alexandria, Va., for the USPTO's third annual National Trademark Expo. The two-day event is designed to engage the public and educate consumers about the vital role trademarks play in the global economy. PTO staff will conduct informational sessions for individuals and small business owners interested in learning how to search for trademarks on the USPTO's TESS Database as well as how to file a trademark application via the Internet.

The National Trademark Expo is free and open to the public. The event is fun and educational for the entire family and will feature numerous costumed characters for well-recognized brands as well as a story time for children with storybook character participation. Exhibitors from around the country will tell their stories of how trademark protection has helped their businesses grow. Take a tour through the displays that cover the evolution of particular trademarks over the past 100 years, how to tell counterfeit products from genuine articles, and unusual trademarks that feature color schemes, sounds, characters, and product shapes, as well as other trademark facts and trivia.

The National Trademark Expo will be held from 10 a.m. to 6 p.m. on Friday, October 15 and from 10 a.m. to 4 p.m. on Saturday, October 16 on our campus at 600 Dulany Street in Alexandria, Va.. The campus is a five-minute walk from the King Street Metro Station.

While at the National Trademark Expo, be sure to stop by the National Inventor's Hall of Fame and Museum located on the first floor of the James Madison Building. The "Inventive Eats" exhibit features historical information about patents and trademarks related to food and food production. Admission to the museum is free.

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jsd

I hope to see you at the PTO for this year's National Trademark Expo.

Posted at [03:27PM Oct 10, 2010](#) in [trademarks](#) | [Comments\[0\]](#)

Thursday Oct 07, 2010

USPTO Guest Blog: Visiting the USPTO, By Commerce Secretary Gary Locke

On Wednesday, I met with employees at the USPTO headquarters to personally thank them for their outstanding progress over the past year toward reducing the patent backlog and encourage them to continue their great work as they get within striking distance of bringing the number of pending patent applications down from 750,000 to below 700,000, representing the first significant reduction in the patent backlog in a decade.

Under financial constraints, this agency and the men and women who work here are making a tremendous effort to help bring the patent system and the USPTO into the 21st century.

The work being done at USPTO is central to President Obama's goal of rebuilding America's economic foundation. This agency has kept the United States globally competitive by creating a culture of innovation and entrepreneurship that fosters both small businesses and giant industries and is a key component of job creation and a thriving economy.

I told the group how pleased we were to see that Congress appropriated \$129 million in supplemental funding to enable the USPTO to access more of its fee collections for the essential work the agency is doing.

I also was pleased to note that in addition to reducing the patent backlog, the agency has been moving forward on a number of fronts to provide the highest level of service to inventors, innovators and creators. While the patent office tends to draw a lot of attention, there is also great work going on throughout the agency within the trademark team, the external affairs operation and other departments. Among these:

- A new operational reorganization that took effect on Oct. 1 and contributes to increased efficiency, productivity and transparency;
- Programs and proposals designed to give applicants more control over how quickly their application is examined, such as the Green Technology program and the Three-Track proposal;
- Expanding work-sharing efforts with international IP offices to speed patent examination for applications filed in multiple jurisdictions;
- A proposal to incentivize the development and dissemination of humanitarian technologies;
- A streamlined review of appeal briefs;
- Establishing a new trademark quality metric to measure examination excellence; and
- New communications tools like blogs and Facebook to strengthen USPTO's relationships with employees, the IP community and other stakeholders.

And I was proud to congratulate USPTO on jumping 50 spots over last year's rankings in the Partnership for Public Service survey of the "Best Places to Work," becoming one of the most improved agencies.

Keep up the great work.

Posted at [06:24PM Oct 07, 2010](#) in [ip](#) | [Comments\[0\]](#)

Friday Oct 01, 2010

Reducing Pendency through Worksharing and Acceleration Programs

Increased globalization has taken its toll on IP Offices throughout the world. We see the phenomenon of increased filings and workload in many countries, including the United States and others, particularly in Europe and Asia. The surge in patent filings has created workload challenges everywhere.

Because of the fragmented nature of the global patent system, applicants must file multiple patent applications in different countries to protect a single invention. This leads to redundancy in search and examination, creating inefficiencies and additional costs for applicants. It also means that IP Offices around the world are duplicating a substantial amount of work.

At the USPTO we have the responsibility to lead in the development of a patent system that reflects the economic needs and interests of the global marketplace. Given the current backlog, delays between filing and examination create significant problems for innovators and investors. Because we all have a shared interest in a patent system that promotes a timely and accurate resolution of rights, it is one of my top priorities to better manage our workload. This issue was the focus of many of the discussions that Deputy Director Barner and I had on the margins of the WIPO General Assemblies Meetings last week in Geneva. You can read the text of a briefing we gave to media in Geneva [here](#).

Our strategy for grappling with the backlog embraces the following worksharing concepts: 1) creating new efficiencies in the global patent system by leveraging the search and examination work products of other IP Offices and 2) providing the global patent community greater flexibility as to when patent applications may be examined and accelerated.

There are numerous worksharing and acceleration programs being hosted and proposed by various IP offices. In order to make it easier for our counterparts in global IP offices and our stakeholders to access information on these various programs and proposals, we have compiled two charts that outline our key worksharing and acceleration initiatives. We hope these charts provide a better understanding of the available and proposed programs. The first chart outlines the [major worksharing initiatives at the USPTO](#) and includes some information on programs administered by JPO and EPO. The second chart outlines all of our [domestic acceleration programs and proposals](#) and includes information as to when applicants may request expedited examination.

We have shared these charts with the other IP5 Offices (EPO, JPO, KIPO and SIPO). We believe these charts will be useful to the IP5 group as we all assess and evaluate our various programs. Moreover, we think our users will benefit by having access to a complete survey of all the programs available through the IP5 Offices.

I invite your comments and questions on these charts and on our worksharing and acceleration programs generally. I look forward to your feedback.

Posted at [12:57PM Oct 01, 2010](#) in [patents](#) | [Comments\[3\]](#)

Monday Sep 20, 2010

USPTO Year in Review - And a Look Forward

It has been just over one year since I was sworn-in as Director of the United States Patent and Trademark Office, and I'd like to use the opportunity to take stock of where we are, and also to let you know about things we are working on for the coming fiscal year to address our goals of reducing the backlog and improving quality.

But first, I want to take a moment to recognize the incredibly talented and dedicated workforce at the USPTO. As a practitioner, I knew that the USPTO had a dedicated and caring team. But now I can say with tremendous conviction and unique personal knowledge that the USPTO staff is truly remarkable for its knowledge, judgment, and execution -- just as hardworking, smart and passionate as any I have worked with in my career. It is because of their hard work that I can reflect today on progress against our many objectives.

Last year, the USPTO had a backlog of more than 750,000 patent applications. Today that number is closer to 725,000--pretty remarkable if you consider that filings are up four percent this year and the size of our workforce has decreased. We set a goal of bringing the backlog below 700,000 by the end of this year and I am happy to report that we are within striking distance. With the progress we're making, we are poised to see the first significant reduction in the backlog in a decade.

I'd like to highlight some of the initiatives and programs implemented in the past year that have helped us begin chipping away at the patent backlog. First, the USPTO, in partnership with our patent professional employee union (POPA), implemented a new production count system. That is the tool we use to measure examiner performance and output. The new system provides more time for examination and more credit for first actions, and thereby encourages high quality examination early in prosecution. As of August 31, 2010, the number of actions per disposal was down to approximately 2.4 from over 2.9 in FY 2008-2009. This represents a substantial increase in efficiency.

We are also specifically encouraging the compact prosecution of patent applications. Compact prosecution involves finding the core issues with patent applications and resolving them as early in the examination process as possible. One way to encourage this practice is to increase interviews between applicants and examiners. Interviews have risen significantly in 2010, including as a result of our [First Action Interview Pilot Program](#) which allows participants to conduct an interview with the examiner after reviewing the results of a prior art search.

We are also working to increase the size of our patent examining corps. We've launched a targeted hiring program to focus on recruiting [experienced](#) former examiners and IP professionals who can get up to speed examining patent applications with a minimal amount of training time.

While we're improving the way we motivate and hire examiners, we're working to reduce the impediments applicants and examiners face. One way is through the review of the patent classification system -- which is how we assign applications for examination, and is critical to effectively locating prior art. Planning is underway for this project, which will roll out in FY 2011.

Another critical infrastructure project involves upgrading our information technology (IT) systems. We have already started the process to move our Trademark IT infrastructure into a "cloud" computing environment which will improve the stability, availability, and performance of the systems that support trademark examination and public access to Trademark Office information. On the Patents side, we're building a new patent examination IT system from end to end. This project involves the reengineering of the pre-exam, workflow, examination, and publication processes.

Several applicant-driven patent examination acceleration programs were started this year.

1. [Green Technology Pilot Program](#): This program to provide accelerated examination of patent applications for innovations related to environmentally friendly and energy conservation technologies started in December 2009. As of August 31, 2010, 1,477 Green Technology petitions have been received into our Green Tech Pilot Program. This number represents very strong applicant uptake -- nearly 50 percent of the upper limit originally set for the program. We anticipate further expansion of this program in the coming months.

2. [Project Exchange](#): This pilot program gives applicants with multiple filings greater control over the priority in which their applications are examined, by providing incentives for applicants to withdraw unexamined applications that are no longer important to them--and by the way, it helps to reduce our backlog. We piloted this program first for small entities only, and only recently expended it to all applicants. So the numbers are small, but they are starting to pick up and hopefully will accelerate further in the coming months.

3. [Three-Track Examination](#): Just recently, we proposed a new patent examination initiative that would provide applicants greater control over the speed with which their applications are examined. Under the proposed "Three-Track" initiative, an applicant may request Track I (prioritized examination for an additional fee), Track II (traditional examination under the current procedures), or Track III (applicant-controlled delay for up to 30 months). We have received many public comments about this proposal, particularly with regard to Track III, and are taking them into consideration as we refine the proposal for implementation. We expect to proceed with it in the coming year.

Turning to the important work being done by our policy and international teams, it has been a busy year. Worksharing is an important tool for speeding the processing of patent applications filed in multiple jurisdictions and we're focused on expanding and improving our worksharing practices. The USPTO has implemented the [Patent Prosecution Highway \(PPH\)](#) with other major patent offices worldwide and we've set the goal of doubling PPH cases year over year for the next three years. We're aiming for: 4,000 cases this year; 8,000 cases next year; and 12,000 cases in 2012. I'm pleased to report that we expect to reach the 4000 case goal this year, meaning that in one year we will have more than doubled the throughput of all PPH efforts over all previous years combined.

Finally, I'd like to discuss our increased emphasis on expanding the communications capabilities of the agency and increasing transparency. In the past year we have significantly expanded the amount of information we are making available to the public. We have also launched a number of communications tools to facilitate dialogue between USPTO management, employees, and the stakeholder community at large. These include:

- [Blogs](#): In addition to this employee blog, I am blogging weekly on the "Directors Forum" blog which can be accessed on our Web site, www.uspto.gov, and we've just begun sending the Director's blog out via Google Feedburner so anyone can subscribe.
- [Feedback Channels](#): We've implemented "Feedback Channels" to solicit public input on initiatives like the Green Tech and Three Track program and we've received a lot of helpful feedback.
- [Facebook](#): We've established a Facebook page to engage the public and the intellectual property community directly and provide real-time information.
- [Patents Dashboard](#): This month we launched our new online "dashboard" to communicate Agency data and performance metrics on patent pendency and other key patents measurements in a clear and understandable way—and in real time. If you haven't had the opportunity to do so, please take a look at the new dashboard on our Web site.

It has been a busy year here at the USPTO and the new year will be just as busy. The entire team at USPTO is committed to implementing improvements across the board to give America's inventors the opportunity to thrive in a global economy. Thanks to the hard work of our employees and the support of our stakeholders, we are making solid headway.

Posted at [02:45PM Sep 20, 2010](#) in [USPTO](#) | [Comments\[4\]](#)

Tuesday Sep 07, 2010

Greater Transparency: Introducing the USPTO Data Visualization Center and the Patents Dashboard

As you all know, reducing the backlog of unexamined patent applications and driving patent pendency down is our top priority. This goal is especially urgent at a time when our economy is struggling, and the patent backlog is stalling the delivery of innovative goods and services to market while hindering economic growth and job creation. It has been estimated that the current backlog of more than 700,000 applications may cost the U.S. economy billions of dollars due to what is called "foregone innovation"— commercial opportunities that fail to get off the ground because of long delays in obtaining necessary patent protection. That is unacceptable and we are determined to turn things around because so much depends on it.

An important part of the effort to reduce pendency is better understanding the numerous factors that contribute to examination delays and measuring their impact in a way that makes the USPTO more transparent to the public. By looking at the whole picture, we can more effectively develop ways to increase the efficiency of the examination process. While we know we have to hire more examiners to reduce the backlog, we also know that we must re-engineer the way we do business at the USPTO and have already implemented a series of initiatives designed to improve efficiencies. These process changes will empower our workforce to be more effective and have already begun to yield important gains.

Traditionally, we have measured pendency at two points in the process: first, we have measured the average time from filing to First Office Action, which is the first substantive examination action; and we have measured the average time from filing to allowance or abandonment of the application, which we refer to on the dashboard as Traditional Total Pendency. We will continue to maintain these measures as they are helpful ways to look at pendency, and indeed sometimes the best measure for applications that proceed through the system without the need for appeals or divisional practice or continuation practice. These traditional measures will also be maintained because they provide a consistent benchmark against which to measure our progress, and enable us to maintain consistency in our reporting to the Department of Commerce, the Office of Management and Budget, the Congress and the public. However, as I have previously stated, these measures do not provide complete data about pendency across the USPTO. We therefore will now measure pendency in several additional ways to ensure we have a more complete picture, and will make that data available to the public starting today.

We have just launched the beta version of a [USPTO Data Visualization Center](#) on our Web site that introduces the patents dashboard. This tool will give the public access to traditional measures of pendency as well as several new pendency tracking measures. We are also providing other important data covering USPTO patent operations in a convenient dashboard format. The patents dashboard provides more refined pendency information than was previously available, as well as other critical performance indicators such as the number of applications in the backlog, production, actions per disposal and our staffing levels. This information will help the entire IP community to better understand our processes, and enable applicants to make more informed decisions about their applications, especially as we develop more opportunities for applicants to control the timing at which their applications are examined. The new dashboard, which will be updated monthly, will also be used internally by the USPTO to analyze and improve our examination process and to track the effectiveness of our improvement efforts. We intend to further refine the dashboard and welcome your input about ways we can improve it. A dedicated [mailbox](#) has been set up for your comments and we intend to monitor your feedback carefully.

The dashboard introduces six new measures of pendency designed to give a better overall picture of the contributions of different parts of the examination process to application pendency. For example, the traditional **total** pendency measure stops the clock with the filing of an RCE, which may not provide an accurate measure of the total time it takes to complete the examination of an application through request for continued examination (RCE) practice. A new measure, called "Traditional Total Pendency Including RCEs," looks at pendency of applications from filing of the original application to ultimate disposal of that same application, including any additional time attributable to RCE filings in those applications where RCE filings are made. Similar measures are provided relative to divisional applications and other types of continuation practice. We also provide information about pendency for applications in appeal practice.

You can learn more about what we will be measuring and tracking on the dashboard at www.uspto.gov/dashboards. For those who really want to dive into the numbers, we will also make a more detailed spreadsheet available for each measure with additional data. We encourage you to watch our progress as the programs and initiatives we've started over the past year begin to show results. For instance, you'll see that the number of actions per disposal is dropping, indicating improved examination efficiency. With the recent legislation giving us access to an additional \$129 million of our collections, our ability to increase examiner overtime and accelerate information technology improvements and hiring will lead to even more progress in reducing application pendency and the backlog of unexamined applications.

We're pleased to offer a useful new tool for our stakeholders, and a window into our operations that has not been available before. We hope you find the car dashboard metaphor helpful and attractive. While we recognize that data visualization experts may prefer other formats, the dashboard metaphor conveys information succinctly, and gives us all something to start with. However we appreciate that all metaphors have their limits -- for instance the speedometer format is certainly not intended to convey that a higher backlog is better.

We hope you'll find the new USPTO Data Visualization Center and dashboard to be a valuable resource and we welcome any feedback you have on how we can make it even better -- even as to the metaphor used to visualize the data we are presenting.

We look forward to your feedback.

Posted at [02:59PM Sep 07, 2010](#) in [patents](#) | [Comments\[3\]](#)

Friday Sep 03, 2010

Talking Quality

With this blog I wanted to return to the topic of patent quality. We talk all the time about how important it is. There's no question it is imperative to our agency and our applicants. We've sought comments from the IP community on this topic, and we've held two roundtable meetings on it, all within the last 9 months. But what is patent quality? That is, what constitutes a patent that is high in quality?

The answer to this question may depend on who you ask. If you ask an attorney, she may say "A high-quality patent meets all statutory and regulatory requirements and will withstand legal challenges by competitors or other third parties." While true, such a description isn't easy to apply in the examination process.

An inventor might say, "A high-quality patent is one that covers the full scope of my invention and no less." Well, perhaps that's a bit more helpful.

As I said a number of times last year when we kicked off the joint PPAC-USPTO Quality Taskforce, our historical measurements of quality are long overdue to be revised. We have concluded the first phase of the Quality Taskforce work, and we are on track to introduce some new quality metrics this coming fiscal year. You'll be hearing more about these metrics in the near future.

While the above represents good progress, and while our current quality metrics indicate that quality has been improving, I think it is fair to say we all want to do more relative to quality. So while we continue with efforts stemming from the Quality Taskforce, I'd like to ask about quality from another viewpoint: how do patent examiners think about quality, and especially, what can USPTO management do to ensure that examiners are able to perform the highest quality examinations.

I know that IT is a big part of the quality challenge for examiners, and that we need to provide them with better tools to do their jobs. We're working on that.

Also, I know that quality output is, to a substantial degree, helped by quality input from you, our applicants. And we look forward to continuing discussions with you in this regard.

And of course there is time -- high quality work requires time. That is why we included increased up-front time for examination when we redesigned the count system last year.

Beyond the IT and applicant components, and the time component of quality, what can USPTO management do to help examiners to conduct high quality examinations? Is more technology training the key? Would more training on case law be helpful? More training in search strategies? Would more access to senior examiners who can help with tough issues be helpful? Or more time available to SPEs for coaching? How can our quality review processes change to help them do quality work? What other investments in our examining corps would be worthwhile toward achieving higher quality?

I look forward to your feedback and look forward to further discussions on quality over the coming weeks and months.

Posted at [09:19AM Sep 03, 2010](#) in [patents](#) | [Comments\[2\]](#)

Friday Aug 13, 2010

A note of thanks to the team

I hope, and think it's safe to say we are in a time of increased optimism here at the USPTO. Without question, things are

looking brighter than they did a year ago. I feel really great about what we've been able to achieve in the last year. We've undertaken an expansive slate of new initiatives to improve our processes. Interviews between patent applicants and examiners are up by 60 percent. Production is up. Retention has improved. Most recently, legislation passed in both houses of Congress – in just one week! -- to get the USPTO much-needed access to most of our increased fee collections. Can the USPTO get things done? To quote President Obama--Yes we can!

Our progress is not going unnoticed by the IP community. It seems everywhere I go, stakeholders approach me and say "thank you" for all the progress we're making. Recently, I experienced this at the town hall meeting we held here at USPTO Headquarters on the "Three Track" proposal. Presenter after presenter expressed their gratitude for all of the great work we're doing. Although they were directing their thanks to me and the other senior executives in the room, it's really our employees who they are thanking. I truly wish all of our employees could hear these words of gratitude personally.

The progress we're making is because of the hard work of the entire team across the USPTO enterprise. The role I'm playing—and the best role for our leadership team generally—is simply to cheerlead and coach and enable and remove road blocks that stand in our employees' way. What's happening is that the USPTO's extremely skilled, capable, and dedicated workforce is being set free to do their best work—and I'm seeing it happen at every level of our organization.

By no means am I suggesting we can sit back now. We have a lot of challenges, and a lot of work to do. But I wanted to tell everyone how proud I am of the progress we're making. And I know, and want our employees to know, that any words of thanks given to me are actually for them.

Keep up the great work!

Posted at [09:26AM Aug 13, 2010](#) in [USPTO](#) | [Comments\[3\]](#)

Monday Aug 02, 2010

An Update on USPTO's FY 2010 Spending Authority

Today I'm happy to report that something really important and positive happened last week; something that should brighten the perspective of everyone who cares about innovation, intellectual property, and the operations of the USPTO. Both houses of Congress made strong supportive statements about IP and passed legislation, with laser-focus and laser-speed. Last Thursday the Senate passed H.R. 5874, which had been both introduced and passed just one day earlier by the House. This single-purpose legislation increases the Fiscal Year 2010 spending authority for the USPTO by \$129 million, and we expect the President to sign the bill into law shortly. This swift action reflects the recognition on the part of the Administration and the Congress of the vital role our Agency plays in supporting innovation and in spurring job creation and economic growth.

This legislation will allow the USPTO to immediately take a number of actions that will benefit the entire IP community, including: hiring additional patent examiners; funding full overtime for patent examiners and support staff; accelerating patent examination process reengineering; and continuing to fully fund PCT contract work. Mission-critical IT projects to increase the effectiveness of every USPTO function will also be accelerated.

This is unquestionably an important step in the right direction, returning to the USPTO most of the \$200M we expect to collect this fiscal year in excess of the amount originally appropriated to us. And even more importantly, it is a move toward unleashing America's innovative genius as well as the efforts of our nation's innovation agency – the USPTO. Without question, there is widespread understanding that we need full access to all our fee revenues, given the enormous requirements associated with our efforts to effectively address our pendency and backlog challenges.

The passage of this bill would not have happened without the leadership of Congress, as well as the dedication and support of the President, the Department of Commerce, Office of Management and Budget, and the IP Community. On behalf of the USPTO, thank you to everyone who played a role in making this possible.

Posted at [04:34PM Aug 02, 2010](#) in [USPTO](#) | [Comments\[3\]](#)

Monday Jul 26, 2010

RCE Filings: The Facts

Special Guest Blog by Commissioner for Patents Bob Stoll

To address recent inquiries as to whether RCE filings at the USPTO are rising, I asked the Patents team to look into it. Interestingly, it turns out that overall average RCE filing rates have not changed significantly and unfortunately, some of the RCE information circulating publicly is incorrect. To set the record straight, here are the latest figures: in FY 10, 114,183 RCE applications have been filed through July 12, 2010. This represents 31.2% of total UPR (Utility, Plant, and Reissue application) filings. When compared with 110,183 filings over the same period in FY09 and 138,459 filings for all of FY09, it is apparent that the average RCE filing rate has remained fairly constant.

Nevertheless, we share the desire of the applicant community to see the rate decline. Let's take a look at why the RCE filing rate may be remaining high and explore whether we should be taking further steps to help both applicants and examiners avoid unnecessary RCE filings.

When we redesigned the examiner count system, we indicated that our primary objectives were to improve examination quality and encourage compact prosecution. We also indicated that we intended the improved count system to reduce any incentive our examiners may have to unnecessarily promote RCE practice. But we realized then, as we do now, that there continue to be many reasons why applicants file RCEs. As such, we will continue to treat RCEs as a valuable tool in the patent prosecution process.

In recent months we have instituted many changes designed to better facilitate compact prosecution. These include early interviews, training, count system reform and significant revisions to the SPE performance appraisal plans. With these, we are starting to make progress towards lowering the backlog and reducing patent pendency, despite continued funding and hiring challenges. One great example of our progress is that actions per disposal are down substantially - from over 2.9 in

FY 2008-2009 to currently under 2.4. Productivity in July is up by 3.5 percent over the same time last year--386,147 total PUs (production units*) versus 373,170 PUs. Allowances have increased from 136,228 last year at this time to 178,322 this year. And final rejections are up too, with 203,206 final rejections so far this year, compared to 189,202 for the same period in FY09. Interviews, too, are projected to increase by about 60 percent from last year.

As planned when the new count system was launched, we are placing less emphasis on rapid office response to multiple RCE filings by applicants. As expected, in some cases this is not affecting applicants who use RCE practice. There were 26 art units whose RCE backlog actually decreased between November 2009 and June 30 of this year. In other areas, however, examiner RCE dockets are lengthening. Overall, our RCE inventory has gone from 17,209 as of July 1, 2009, to 35,569 as of July 1, 2010.

We are asking examiners to do their part to enable applicants to get applications prosecuted promptly and to avoid unnecessary RCE practice. It is important that applicants do their part as well. There are many valid reasons for filing RCEs – for example, claim amendments after final that are too substantial for examination under after-final practice. Applicants will be pleased to know that we are working on improvements to 116 practice that should obviate the need for some RCE filings. More information will be coming about these improvements in the months ahead.

But there are also reasons for filing RCE's that are less consistent with the shared goal of compact prosecution and reduction of the USPTO backlog. These include, for example, presenting new claims not included in the original application, or continuing to prosecute broad claims that were rejected in the original case. To put them at the front of the line each time such applicants file an RCE is detrimental to achieving our shared goal. And it's not fair to other applicants who do all the necessary work up front to enable compact prosecution. Furthermore, many applicants using multiple RCE practice actually do not want to be put at the front of the line because they are using RCEs to gain, in effect, an extension of time through slower processing. And, while this practice is permissible, there is no reason for the Office to frustrate these applicants by prioritizing further action on their cases. In any event, all of these scenarios have the effect of lengthening the RCE docket.

We will continue to watch examiners' RCE dockets closely, and will certainly consider further improvements to RCE practice. We'd like to hear from applicants regarding other reasons for RCE filings. We would also like your input on other potential changes in practice, by applicants or by the USPTO, that would minimize the need for RCE filings. For example, should the RCE filing fee be increased to more closely align it with the USPTO's actual cost to continue prosecution? We look forward to hearing from you.

* A production unit is a measure of examiner productivity. The number of production units obtained over a given period are equal to the sum of the number of first actions (A) and disposals (B) divided by two (i.e., $[A+B] / 2 = 1 \text{ PU}$).

Posted at [09:17AM Jul 26, 2010](#) in [patents](#) | [Comments\[11\]](#)

Tuesday Jul 20, 2010

Update on Telework Legislation

This is a good opportunity to update the topic of telework, for two reasons. First, it remains a topic of vital importance to many USPTO employees. And second, there is actually very important news to report. Last week, the House of Representatives passed H.R. 1722, the Telework Improvements Act of 2009. The House included in their bill a provision for a travel test program that would allow the General Services Administration (GSA) to test flexibilities within the travel regulations. If this provision passes, the USPTO will submit to GSA a proposal to permit more USPTO teleworkers to voluntarily locate outside the Capitol metro area by lifting the biweekly reporting requirement for employees who live outside of the 50-mile radius.

By lifting the bi-weekly reporting requirement, the legislation would help the USPTO recruit and retain our highly skilled workforce both in the Mid-Atlantic area and throughout the United States, while minimizing the costs associated with workforce expansion. This in turn would enable the Agency to expand our traditional hiring methods and seek out talented workers in all areas of the country where the expertise exists to fulfill our mission.

There are also two provisions in the Senate telework bill (S. 707, the Telework Enhancement Act of 2009) that provide new flexibility for teleworkers. S. 707 passed the full Senate on May 24. If S. 707 were enacted into law, an employee could choose to live anywhere in the United States in exchange for a willingness to return, on a limited basis, to Alexandria at their own expense and on their own time.

While the recent developments regarding the House and Senate bills are unquestionably good news, we still have more to do on telework legislation. The House and Senate need to work out the differences between their two bills, to create one piece of legislation. Then each body needs to pass the consolidated legislation by majority vote. And there is not much time left this Congress, with the summer recess approaching and elections coming this fall. But, the very act of the House and Senate both including travel regulation test program provisions in their versions of telework legislation is a very positive step.

It is a tremendous honor for me to lead an Agency that is such a trailblazer in telework. But we can and will make our programs even better. I'll continue to work with Congress and will continue to support this very important telework legislation. And I will keep you updated on its progress.

Posted at [10:50AM Jul 20, 2010](#) in [USPTO](#) | [Comments\[3\]](#)

USPTO Strategic Plan - Now Open for Comment

By now you have probably heard that the USPTO draft Strategic Plan for 2010-2015 is posted and open for comment. We recently announced that we have extended the comment period to August 2. If you have not done so already, please visit our [Web site](#) and review the plan, then send your comments to strategicplan@uspto.gov. We look forward to hearing from you.

Posted at [10:49AM Jul 20, 2010](#) in [USPTO](#) | [Comments\[3\]](#)

Thursday Jul 08, 2010

Coming Soon: Draft USPTO 2010-2015 Strategic Plan

I'm writing today about a major challenge and opportunity for the USPTO—and for the entire IP community.

In the coming days we will be releasing, for employee and public comment, the Draft 2010-2015 USPTO Strategic Plan.

Today, I'm asking the entire IP community to invest in the formulation of this plan.

The draft plan sets out the USPTO's mission-focused strategic goals: optimize patent quality and timeliness; optimize trademark quality and timeliness; and provide global and domestic leadership to improve IP policy, protection, and enforcement worldwide.

The plan identifies the objectives we believe are necessary to achieve the strategic goals and sets out the projects, initiatives, and programs we'll use to get there.

The objectives are:

- Provide timely examination of patent applications. Reduce the time to first office action on the merits for patent applications to 10 months, and average total pendency to 20 months
- Improve quality of patent and trademark examination
- Improve/enhance patent appeal and post-grant processes
- Optimize trademark quality and maintain pendency
- Demonstrate global leadership in all aspects of IP policy development
- Improve IT infrastructure and tools
- Implement a sustainable funding model for operations
- Improve relations with employees and stakeholders

In the weeks, months, and years to come, we're counting on USPTO employees and the IP community to unite around the strategic plan. We all need to believe in this plan in order to properly execute it. That's why I want the plan to reflect the values and knowledge of the entire IP community—that includes the ideas of our employees, public stakeholders, and USPTO management.

We invite your comments, your questions, and your suggestions for improvement to help us refine our Strategic Plan.

Our success will ensure that the USPTO and the American IP system continue to fuel the U.S. economy and job growth by spurring innovation, creativity and ingenuity.

Please stay tuned for the release of the draft plan in the coming days. We look forward to your feedback on it.

Posted at [09:49AM Jul 08, 2010](#) in [ip](#) | [Comments\[3\]](#)

Monday Jun 28, 2010

Ten Tips for Streamlining Patent Prosecution

I wanted to follow up on one of my blog postings from a few months ago about ways applicants and examiners can streamline the patent prosecution process. The blog posting contained a "Top 5" list that appeared in IPLaw 360 in an article entitled "Five Things Patent Examiners Wished You Would Do." The article was based on an interview with three Supervisory Patent Examiners (SPEs): David Ometz, John Cottingham and Andrew Koenig.

At the end of my posting I invited comments from our examining corps about expanding this "Top 5" list to a "Top 10" list of tips for improving patent prosecution. There were dozens of comments and suggestions offered, and we have consolidated these comments into a "Top 10" list that I want to share with you. Obviously, some of the items that appeared in the "Top 5" list are included in the new list, but thanks to many fine comments, the original "Top 5" have been refined and 5 more have been added. Here is the list:

- 1) CONDUCT INTERVIEWS: Set up interviews when possible. Interviews can help applicants and examiners quickly identify points of agreement as well as points of disagreement. An interview will help advance prosecution and provide an opportunity to facilitate a possible early allowance.
- 2) KEEP CLAIMS MANAGEABLE: Avoid filing excessive numbers of claims. Filing a manageable number of claims will enable the examiner to enhance prosecution by directing examination efforts at the heart of applicants' invention.
- 3) PROVIDE GOOD TRANSLATIONS: Do a careful job of translating foreign-language applications into English before filing an application in the United States. Poorly translated applications often result in undesirable lengthy prosecution resulting from lack of clarity arising from indefinite claim language or unclear wording in the specification.
- 4) CLEARLY IDENTIFY NEW LIMITATIONS: When adding new limitations to claims during prosecution, include a brief section in the remarks citing the location in the specification or drawings that provides support. This will eliminate unwarranted new matter rejections under Section 112 and assist the examiner in better understanding the meaning of the claims.
- 5) FILE THOROUGH RESPONSES: Take care to ensure that your response addresses the specific issues set forth in the examiner's office action. Responses or amendments that fail to address the issues in the office action unduly extend prosecution.

- 6) **ADVANCE AMENDMENTS/ARGUMENTS EARLY:** File arguments and amendments at the earliest stage of prosecution, and prior to a final rejection if at all possible. Amendments submitted after final are more difficult to deal with procedurally, are not automatically entered, and extend prosecution.
- 7) **COORDINATE US/FOREIGN APPLICATIONS:** Draft or amend your U.S. application in view of the prosecution in a corresponding foreign or international application. Success of the Patent Prosecution Highway (PPH) shows that applications drafted or amended in response to search reports and patentability opinions in corresponding foreign or international applications have a much higher allowance rate and shorter prosecution.
- 8) **DRAFT CLAIMS TOWARD THE INVENTION:** Know what you want to protect before you file the application and draft the claims toward the invention. If the claim set is not initially drafted to capture the protection needed or desired by the applicant, the examiner will have difficulty doing a comprehensive search on first action. Furthermore, the examiner will have difficulty anticipating what might be claimed in the future, if the initial claim set is misdirected or overly broad. All of this extends prosecution at everyone's expense.
- 9) **KEEP INFORMATION DISCLOSURE STATEMENTS MATERIAL:** Submit a focused Information Disclosure Statement (IDS). Include in an IDS only those references material to patentability. The citation of references that are not material to patentability does not promote a focused examination. Also, be careful to avoid the repeated citation of the same reference.
- 10) **DRAFT CLAIM SET FROM BROAD TO NARROW:** Draft your claim set beginning with the broadest scope to which you feel you are entitled and concluding with the narrowest scope you feel merits protection. A claim set that is graduated in scope from broad to narrow assists the examiner in performing a complete and focused search on first action and can help the examiner anticipate future amendments. A claim set that is merely broad does not assist the examiner in performing a focused search and often leaves the examiner guessing as to what might be claimed after first action. This can lead to piecemeal prosecution and the citation of new art after amendment.

Applicants and examiners both must be committed to compact prosecution in order to achieve the efficiency we all seek. The tips above can assist practitioners and examiners in achieving an early resolution of rights in patent applications and ultimately expedite the issuance of a patent.

Thanks to all who submitted comments which led to the creation of this "Top 10" list. As always, I welcome your comments.

Posted at [09:44AM Jun 28, 2010](#) in [patents](#) | [Comments\[4\]](#)

Tuesday Jun 15, 2010

The Three-Track Proposal: Putting Applicants in Control of Examination Timing

Today, I'd like to share some perspectives on the USPTO's "Three-Track" proposal for patent examination, which was released for public comment earlier this month. This proposed examination initiative would allow inventors to choose among three different tracks of patent examination and thereby tailor the patent examination process to better suit their business needs. We are currently [seeking public comment](#) on this proposal and will hold a public meeting on July 20th.

The Three-Track proposal is designed, first and foremost, to help us put Americans to work – that is, to enable applicants to increase their own, and the USPTO's effectiveness by selecting their most time-critical work for priority processing. It is also intended to help reduce pendency and enhance work sharing among IP offices.

Track 1 of the program is prioritized examination aimed at achieving final action within 12 months of the request for prioritized examination and the payment of an accompanying fee. Track 2 would be today's examination process, which currently takes on average 34 months to complete. Track 3 would allow non-continuing applications first filed at the USPTO up to 30 months to decide whether to request examination. In addition, the proposal would allow applicants to "change tracks" if circumstances warrant it-- either speeding up or slowing down the patent examination process as needed.

The proposal would enhance worksharing by synchronizing USPTO examination of applicants first filed overseas to follow overseas examination—thereby ensuring the overseas patent office work product is available to the USPTO examiner when she undertakes her work. Specifically, it would require applicants in any application that claims the priority date benefit of a foreign application to submit a copy of the search report, if any, and the first action on the merits from the foreign office together with arguments explaining why the claims in the U.S. application are patentable in the U.S. given the positions taken by the foreign office.

An inventor who files first in the United States -- or an inventor who files first in a foreign office and receives a first action on the merits that is in turn submitted along with applicable comments to demonstrate how the claims in the U.S. application are patentable -- may request prioritized examination under Track 1 after paying the relevant fee. Thus, both applicants who file first in USPTO and applicants who file overseas first can obtain the benefit of accelerated processing at the USPTO. Track 3 is available to an inventor who files first in the United States provided the applicant does not request non-publication.

The Three-Track proposal is a win-win for inventors, the Agency and the public. Patent applicants are allowed to either accelerate or delay patent processing according to their needs or market conditions. Inventors can opt for Track 1 for inventions that are ready for immediate commercialization. Or, by taking advantage of Track 3 examination, both small and large entities are able to delay the cost of obtaining a patent until their invention is ready for commercialization and they determine that further investment in the patent process makes sense.

The Agency benefits from the ability to focus resources more effectively on the most important work of the applicant community. In addition, we expect this will help with the backlog generally, as some percentage of Track 3 applications will be dropped without payment of the search and examination fees. In a turn on an old adage, a sinking tide lowers all boats – in this case, in a good way.

The public would also benefit by the Agency prioritizing its resources toward applications likely to be used in the market much more quickly than is possible under the current process. By examining the most promising inventions promptly, the USPTO will facilitate investment in commercializing innovation and the creation of new jobs.

One issue left open by the Three-Track proposal is setting of fees for Track 1, especially for small and micro entities. Unfortunately, the USPTO does not have statutory authority to discount the Track 1 filing fee for small or micro entities. If such enhanced authority were provided by Congress, we would grant a 50% discount for small entities and a 75% discount for micro-entities. Within the limits of the authority we have at the USPTO to help improve the patent process for our applicant community, we have designed the Three-Track proposal to help all patent filers – small and large.

I am very excited about the many benefits we can derive from a three-track examination process, and look forward to receiving comments from our employees, the IP community and the public.

Posted at [01:14PM Jun 15, 2010](#) in [patents](#) | [Comments\[5\]](#)



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