



PATENT LAW 2006: The Year in Review

By Bruce Owens

In 2006, the Court of Appeals for the Federal Circuit (CAFC) and the U.S. Supreme Court rendered decisions in several cases that will have significant effects on the field of patent law. In addition, Congress has proposed new legislation that, if enacted, would substantially alter the practice of patent law. A brief discussion of some of these cases and the proposed legislation is given below.

DAMAGES

In a landmark unanimous decision, the Supreme Court in *eBay Inc. v. MercExchange, L.L.C.* put an end to the "general rule" that a permanent injunction should follow a finding of infringement of a valid patent. Rather, the Court, deciding that the traditional four factor analysis regarding injunctions is the appropriate standard for patent litigation, ruled that the decision of whether an injunction should issue is within the trial court's discretion. The decision has been characterized by some as a kind of **compulsory licensing** in the United States.

OBVIOUSNESS

In *KSR International Co. v. Teleflex Inc.*, the Supreme Court in August granted KSR's petition for *certiorari* to reconsider the CAFC's ruling that a patent may not be found invalid for obviousness unless the prior art itself sets forth a "teaching, suggestion, or motivation" to combine the prior art teachings in the manner claimed in the asserted patent. In November the Supreme Court heard oral arguments; a decision is expected in 2007. This case has the potential to make the **non-obviousness requirement** for patentability more difficult for applicants to satisfy.

Following the Supreme Court's grant of *certiorari*, the CAFC qualified and defended its teaching-suggestion-motivation (TSM) test in four key rulings (*In re Kahn*, *Dystar Textilfarben GmbH & Co. Deutschland KG v. C.H. Patrick Co.*, *Alza Corp. v. Mylan Labs., Inc.*, and *Ormco Corp. v. Align Tech., Inc.*). The CAFC explained that the TSM test is intended to guard against hindsight and ensure predictable patentability determinations. Emphasizing the flexibility of the TSM test, the CAFC repeatedly stressed that it does not require an explicit teaching, suggestion, or motivation to combine references in the references themselves, but instead allows for an implicit teaching, motivation, or suggestion based on (1) the prior art as a whole, (2) the knowledge of one skilled in the art, (3) the nature of the

problem to be solved, (4) simple logic, or (5) the conclusions of experts.

DISCLOSURE REQUIREMENTS

In *Falker-Gunter Falkner v. Inglis*, the CAFC, adhering to the well-established rule that "[a] patent need not teach ... what is well known in the art," held that "there is no *per se* rule that an **adequate written description** of an invention that involves a biological macromolecule must contain a recitation of known structure."

CLAIM CONSTRUCTION

In August, the CAFC in *Amgen Inc. v. Hoechst Marion Roussel, Inc.* reaffirmed the **de novo standard of review** for claim construction set forth in *Markman* and *Cybor*. Amgen's petition for rehearing *en banc* was denied in November. Interestingly, the denial was accompanied by six separate opinions, including four dissents that indicated a willingness to reconsider the *de novo* standard of review. In his dissent, Chief Judge Michel noted several practical problems that have emerged under the *de novo* standard, including (1) a steadily high reversal rate, (2) a lack of predictability about appellate outcomes, (3) the loss of the comparative advantage of district court judges, and (4) the inundation of the CAFC with the minutiae of construing claims.

Nevertheless, the *de novo* standard received further support in *SRAM Corp. v. AD-II Engineering, Inc.* SRAM had urged the CAFC to adopt the district court's narrow construction of a claim at issue on the grounds that the PTO examiner adopted the same construction during reexamination of the patent-at-suit. The CAFC, however, observed that "this court is not bound by the PTO's claim interpretation because we review claim construction *de novo*."

In *Conoco Inc. v. Energy & Environmental International LC*, the CAFC ruled that, although the transitional phrase "**consisting of**" is a term of restriction, that restriction is not absolute in the exclusion of unrecited limitations. EEI had argued that Conoco's use of "consisting of" in the claims at issue limited the scope of the patent to cover products performing only the recited steps of the patent and nothing else. The CAFC, though, held that "consisting of" does not exclude additional components that are unrelated to the invention, and the presence of impurities that a person of ordinary skill in art would ordinarily

associate with a component on the "consisting of" list does not exclude the accused product or process from infringement.

UTILITY

The Supreme Court, which had granted *certiorari* in *Laboratory Corp. of America Holdings v. Metabolite Labs., Inc.* to address the question of whether a patent instructing a party to "correlate test results" in a diagnostic array can validly claim a monopoly over a basic scientific relationship, dismissed the writ of *certiorari* as "improvidently granted." It was believed that the Court's ruling in *Metabolite* had the potential to dramatically alter the landscape of patentable subject matter, especially as relating to method patents. In his dissent, Justice Breyer notably appeared to question the Court's ruling in *State Street Bank & Trust Co. v. Signature Financial Group*, and thus the validity of business method patents generally.

REISSUE

In *Medrad Inc. v. Tyco Healthcare Group LP*, the CAFC considered whether the reissue statute, 35 U.S.C. § 251, applies only to errors that occur in the actual language of the claims of an issued patent or, more broadly, to any error that results in patent rights with more or less scope than would have been provided but for the error. Framing the issue as one of pure statutory construction, a unanimous court held that § 251 does not require an error in the specification, drawings, or claims of the patent, but can be based on **any inadvertent error** that results in under- or overclaiming.

INFRINGEMENT

The Supreme Court granted *certiorari* in *Microsoft Corp. v. AT&T Corp.* to determine whether Microsoft's practice of sending "golden master" disks of its Windows® software code overseas for copying and loading onto computers to be sold overseas constitutes infringement of AT&T's speech compression patent under § 271(f). In 2005, a CAFC majority held Microsoft liable under § 271(f), ruling that software can be a "component" for purposes of § 271(f)(1), and that Microsoft's practice of sending a golden master disk overseas constitutes "supplying" all copies made overseas from that golden master for purposes of § 271(f)(1). The Supreme Court decision could result in a contraction of the **extraterritorial impact** of U.S. patents.

The CAFC further defined the scope of waiver of **attorney-client and work product privilege** in *In re*

EchoStar Commc'n. Corp. Reasoning that a legal opinion or mental impression that was never communicated to the client provides little assistance to the court in determining whether the accused knew it was infringing, the CAFC ruled that a waiver of attorney-client privilege does not extend to work product which is never communicated to the client.

In *DSU Medical Corp. v. JMS Co., Ltd.*, the CAFC, in an *en banc* "section" decision, clarified the standard of intent for **inducement of infringement**, ruling that inducement of infringement of a patent under 35 U.S.C. § 271(b) requires an alleged infringer to have knowingly induced infringement, not merely knowingly induced the acts that constitute direct infringement.

INEQUITABLE CONDUCT

The CAFC decided four key cases that further developed the law of inequitable conduct. In *Purdue Pharma v. Endo Pharms.*, the CAFC opined that a finding of inequitable conduct requires "a special kind of balancing" between the level of materiality and the evidence of intent, such that when the level of materiality is relatively low, the showing of intent must be proportionately higher. In *Digital Control v. Charles Machine Works*, the CAFC addressed the proper standard for assessing the materiality of misstatements made to the Examiner during prosecution. Recognizing that the Rule 56 standard had emerged as the one most frequently applied by the court, the CAFC nevertheless ruled that the Rule 56 standard did not "supplant or replace" the "reasonable examiner" standard, which had been applied by the court in prior cases. In *Ferring v. Barr Labs.*, the CAFC held that an applicant's prior relationship with a declarant is material and should be disclosed to USPTO to avoid a finding of inequitable conduct. Finally, in *Agfa Corp. v. Creo Prods., Inc.*, the CAFC held that the Seventh Amendment right to a jury trial does not extend to questions of inequitable conduct and enforceability.

PATENT REFORM

The Patent Reform Act of 2006 was introduced in the U.S. Senate in the last weeks of the 109th Congress. The Senate measure, like last year's House bill, would implement a first-to-file patent system and institute post-grant opposition procedures, and also included additional restrictions intended to discourage forum shopping and limit the amount of damages for winners of infringement suits. The bill was not enacted before the close of the legislative session.