SMU | Dedman School of Law

SMU Law Review

Volume 60 | Issue 3 Article 19

January 2007

Intellectual Property Law

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INTELLECTUAL PROPERTY LAW

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I. INTRODUCTION

THIS article surveys the most significant changes in intellectual property law in the past year.[1] The article considers only those decisions that are precedential in Texas. The cases cited are limited to decisions of the United States Supreme Court and the United States Courts of Appeals for the Fifth and Federal Circuits. For developments in trademark and copyright law, the Fifth Circuit's authority is binding. Additionally, because all cases concerning a substantive issue of patent law are appealed to the United States Court of Appeals for the Federal Circuit, decisions from the Federal Circuit during the survey period are also included in this article.[2]

2006 was quite a year for intellectual property. The United States Supreme Court showed the most interest in patent cases since the creation of the Federal Circuit in 1982. From revisiting patent doctrines thought to be long-settled to actively taking up the issues of what is patentable subject matter, the highest court in the land is signaling the importance of patents to our economy and the need for modern adjustments to the current state of the law. Whether due to patent friendly venues or the threat of taking their BlackBerry® devices, patent litigation has also received considerable attention from members of Congress who continue to propose patent reform legislation.

1. The views expressed in this article are the views of the individual authors and are not necessarily those of Haynes and Boone, LLP, its attorneys, or any of its clients.

2. 28 U.S.C. § 1291 (2004); *see also* Deprenyl Animal Health, Inc. v. Univ. of Toronto Innovations Found., 297 F.3d 1343, 1348–49 (Fed. Cir. 2002).

II. PATENT UPDATE

A. SOMETHING'S COOKIN': THE SUPREME COURT ON PATENTS

1. Whatever It Is . . . Did They Get It on eBay: eBay In Review

When last year's Survey went to press, the United States Supreme Court had recently decided *eBay Inc. v. MercExchange, L.L.C.*[3] A unanimous Court held that victorious patent holders are not entitled to automatic injunctive relief against infringers; rather, they must satisfy the same four-factor test applicable to non-patent-related requests for permanent injunctions:[4] Specifically,

> [a] plaintiff must demonstrate: (1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction.[5]

This holding overturned the Federal Circuit's "general rule" that "courts will issue permanent injunctions against patent infringement absent exceptional circumstances."[6]

While the decision was unanimous, Chief Justice Roberts and Justice Kennedy authored competing concurrences that offered starkly different views on the application of the four-factor test to plaintiffs who did not themselves practice their inventions (i.e., patent holders who only licensed their inventions). Chief Justice Roberts indicated that the decision should not cause courts to disregard the history of providing injunctive relief in patent cases, as the Court was not "writing on an entirely clean slate."[7] Justice Kennedy, in contrast, wrote that recent changes in the patent marketplace may dictate less frequent granting of permanent injunctions because "legal damages may well be sufficient to compensate for the infringement and an injunction may not serve the public interest."[8] Kennedy also noted that "the existence of a right to exclude does not dictate the remedy for a violation of that right,"[9] and, therefore, the trial court should have broad discretion to determine adequate relief.[10]

a. The general impact of *eBay*

The impact of the *eBay* opinion has been far-ranging, affecting various aspects of patent litigation, including trials, decisions on settlement, ongo-

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3. David L. McCombs & Phillip B. Philbin, *Intellectual Property Law*, 59 SMU L. REV. 1409 (2006); eBay Inc. v. MercExchange, 126 S. Ct. 1837 (2006).
4. *eBay Inc.*, 126 S. Ct. at 1841.
5. *Id.* at 1839.
6. *Id.* at 1838.
7. *Id.* at 1841 (Roberts, C.J., concurring).
8. *Id.* at 1842 (Kennedy, J., concurring).
9. *Id.*
10. *Id.*

ing licenses, and the practices of competitors, patent holders, and patent holding companies. The split concurrences discussed above left the law unsettled, and some district courts—primarily those in Texas—have had an opportunity to apply the decision to particular facts in cases before them. It appears that Justice Kennedy's approach has taken hold. Although the Federal Circuit has yet to give its take on the remand of *eBay*,[11] injunctions appear more difficult for patent holders to obtain.[12] The cases from district courts in Texas outlined below suggest a trend in the courts' determinations of whether to issue a permanent injunction; courts have placed additional significance on the existence of competition between the parties when applying the traditional four-factor test.[13]

b. Implementation of eBay within Texas—Exemplary Cases

i. Authentic on the 1st attempt?: z4 Technologies, Inc. v. Microsoft Corp.

Not surprisingly, the patent-heavy dockets of the Eastern District of Texas were the first to publish an opinion applying the "new" eBay standard. In *z4 Technologies, Inc. v. Microsoft Corp.*,[14] z4 sought to enforce its patent for methods of limiting unauthorized software use.[15] z4 prevailed at trial, with the jury finding defendants Microsoft and Autodesk liable for willful infringement and total damages in excess of $130 million.[16] With its trial victory in hand, z4 moved for a permanent injunction against Microsoft.[17]

In its reasoning, the district court looked heavily to the eBay opinion, especially Justice Kennedy's concurrence. It noted that Microsoft and z4 were not direct competitors. Also, z4's patented invention was "in no way related to the core functionality for which the software is purchased by consumers,"[18] and was only a small part of Microsoft's Windows and Office products that the issuance of an injunction would impact.[19] These facts matched the sort of circumstances Justice Kennedy pointed to when suggesting the possible sufficiency of legal damages.[20] Because Microsoft did not license z4's methods but only used them in its own products, z4's

11. *See* MercExchange, L.L.C. v. eBay.com, 188 F. App'x 993 (Fed. Cir. 2006) (remanding case to district court for new determination on request for injunctive relief).

12. *See* James E. Hopenfeld & Pritti R. Langer, *Fewer Patent Injunctions Issue in Wake of 'eBay'*; NAT'L L.J., Dec. 4, 2006, at S4.

13. While the emphasis on competition between the parties seems consistent, courts do not appear to have found a consistently favored alternative remedy for ongoing infringement when an injunction is denied. As the cases that follow demonstrate, courts have done everything from severing ongoing infringement into a new cause of action to granting the infringer a license. Remedies utilized by courts in lieu of a permanent injunction will be one of the most interesting areas of patent litigation to watch in 2007.

14. 434 F. Supp. 2d 437 (E.D. Tex. 2006).

15. *Id.* at 438.

16. *Id.* at 438–39.

17. *Id.* at 439.

18. *Id.* at 441.

19. *Id.* at 440–41.

20. *eBay*, 126 S. Ct. at 1842 (Kennedy, J., concurring).

ability to license the technology to the market was unimpeded, and z4 could not show "irreparable harm."[21] Further, the "balance of hardships"[22] tilted heavily in Microsoft's favor. Redesigning existing products already in place presented Microsoft with an enormous task, while leaving the authentication system in place did little to harm z4's business.[23] Also consistent with Kennedy's concurrence, the district court provided for a further legal remedy for z4, in lieu of the equitable relief, by severing z4's causes of action for post-verdict infringement of z4's patents.[24]

ii. Hybrid Approach Backfires: Paice LLC v. Toyota Motor Corp.

The district court's reasoning in *Paice LLC v. Toyota Motor Corp.*[25] paralleled the reasoning used in *z4*. Patentee Paice sued Toyota for infringement of its patents via Toyota's production of hybrid-drive vehicles.[26] After applying the doctrine of equivalents, the jury found that Toyota infringed two claims but that the infringement was not willful.[27] Following the verdict, Paice moved for permanent injunction.[28] Like many patent holders, Paice derived revenue from its patent through a hybrid of infringement suits and licenses. Paice argued that Toyota's infringement impeded attempts to license the patent, thus causing irreparable harm. The district court found no evidence that Toyota's use in manufacturing caused irreparable harm to licensing efforts by the patentee[29] and that the infringing use was only a small aspect of the infringing product.[30] In an ironic twist, the district court pointed to Paice's unremarkable offer to license the patent to Toyota as evidence of the sufficiency of monetary damages.[31]

iii. License against will: Finisar Corp. v. The DirecTV Group, Inc.

In *Finisar Corp. v. The DirecTV Group, Inc.*,[32] the district court provided for a more remarkable result, but it gave less insight into its reasoning. The patentee Finisar alleged that DirecTV had infringed its patent that disclosed a system to deliver information to consumers through satellite TV.[33] Following a jury verdict of willful infringement resulting in damages in excess of $100 million, patent holder Finisar sought a perma-

21. *z4*, 434 F. Supp. 2d at 440–41.
22. *Id.* at 442.
23. *Id.* at 442–43.
24. *Id.* at 444.
25. No. 2:04-CV-211-DF, 2006 U.S. Dist. LEXIS 61600 (E.D. Tex. Aug. 16, 2006).
26. *Id.* at *2.
27. *Id.* at *3.
28. *Id.*
29. *Id.* at *9–13.
30. *Id.* at *15 .
31. *Id.* at *16.
32. No. 1:05-CV-264, 2006 U.S. Dist. LEXIS 76380 (E.D. Tex. July 7, 2006).
33. Hopenfeld, *supra* note 12, at S5.

nent injunction.[34] The district court not only denied the injunction, but it also granted DirecTV a compulsory license for continued use of Finisar's patents.[35] Finisar argued that it would be unable to sell an exclusive license without the injunction, but the district court found the awarded damages, which it had enhanced, to be adequate compensation.[36]

iv. Did you see that! . . . or should I skip back?: TiVo Inc. v. EchoStar Communications Corp.

Not all motions for injunction went in favor of the infringer as demonstrated by *TiVo Inc. v. EchoStar Communications Corp.*[37] Patentee TiVo sued over the infringement of its patent by defendant's digital video recorders, a type of product also made by TiVo.[38] The district court followed the traditional four-factor test espoused by *eBay* and found that TiVo lost market share as a result of direct competition from EchoStar's infringing products.[39] The loss of market share irreparably harmed TiVo, and, therefore, a permanent injunction was proper.[40]

2. *Side Effects May Include Headaches, Consternation, and Upset Clients. Ask Your Doctor if Certiorari is Right for You:* Laboratory Corp. of America Holdings v. Metabolite Laboratories, Inc.

One of the most anticipated patent decisions of 2006 never issued: the Supreme Court withdrew its previous grant of certiorari as improvidently granted in *Laboratory Corp. of America Holdings v. Metabolite Laboratories, Inc.*[41] The Court declined to hear the case because the central issue—the patentability of a method for using a scientific phenomenon—had not been argued before the lower courts. Justice Breyer, joined by Justices Stevens and Souter, issued a lengthy dissent, however, indicating a strong dissatisfaction with both the withdrawal of certiorari and the method patent at issue.

In addressing the applicable standard for the case, Justice Breyer explored the general purposes of patent law, observing that "[s]ometimes [a

34. *Id.*
35. *Id.*; *Finisar*, 2006 U.S. Dist. LEXIS 76380, at *5.
36. *Id.*
37. 446 F. Supp. 2d 664 (E.D. Tex. 2006).
38. *Id.* at 665.
39. *Id.* at 666, 669–70.
40. *Id.* at 669; *see also* Visto Corp. v. Seven Networks, Inc., No. 2:04-CV-1-DF, 2006 U.S. Dist. LEXIS 91453, at *3, *12–13 (E.D. Tex. Aug. 17, 2006) (citing to *Tivo*'s reasoning in finding irreparable harm due to direct competition between parties and issuing injunction preventing further infringement of plaintiff's patents on data-synchronization methods and systems); Transocean Offshore Deepwater Drilling, Inc. v. Globalsantafe Corp., No. H-03-2910, 2006 U.S. Dist. LEXIS 93408, at *11–12 (S.D. Tex. Dec. 27, 2006) (distinguishing cases from the Eastern District of Texas that deny the issuance of an injunction from a case concerning the infringement of a patent for methods and apparatus on deepwater drilling rigs by pointing to the direct competition for the "same customers in the deepwater rig market" between the parties in the case at hand.)
41. 126 S. Ct. 2921 (2006).

patent's] presence can discourage research by impeding the free exchange of information."[42] "Patent law seeks to avoid the dangers of overprotection just as surely as it seeks to avoid the diminished incentive to invent that underprotection can threaten."[43] This theme continued throughout the dissent, appearing again in Breyer's criticism of the Court's decision to forego a ruling. He explained that "a decision from this generalist Court could contribute to the important ongoing debate, among both specialists and generalists, as to whether the patent system, as currently administered and enforced, adequately reflects the 'careful balance' that 'the federal patent laws . . . embody.'"[44]

Aside from the above comments generally addressing the state of patent law, Justice Breyer focused his opinion on Metabolite's method patent. At issue was whether Metabolite's patent for diagnosing vitamin deficiencies based on the levels of an amino acid improperly sought to "claim a monopoly over a basic scientific relationship."[45] Laboratory Corporation had licensed Metabolite's patent, but it stopped paying the licensing fee when it began using a test offered by a competitor.[46] Metabolite sued, alleging that any test infringed its patent if it involved the correlation between amino acid levels and a vitamin deficiency.[47] Justice Breyer explained that the prohibition on the patenting of laws of nature was based on the general concern over the appropriate scope of patent law.[48] He concluded that Metabolite's patenting of the correlation between amino acids and vitamin levels was invalid as a non-patentable "phenomenon of nature" and was "no more than an instruction to read some numbers in light of medical knowledge."[49]

3. *Mutiny on the License*: MedImmune, Inc. v. Genentech, Inc.

Argued the first week of October, *MedImmune, Inc. v. Genentech, Inc.*[50] was, unsurprisingly, the first patent case of the Supreme Court's 2006-2007 term. MedImmune licensed a patent from Genentech covering a respiratory drug and then later brought a declaratory judgment action seeking to invalidate the patent.[51] Because MedImmune had a valid license with Genentech at the time it sued, the district court relied on Federal Circuit precedent in *Gen-Probe Inc. v. Vysis, Inc.*[52] and granted a motion to dismiss for lack of subject matter jurisdiction.[53] In *Gen-Probe*,

42. *Id.* at 2922 (Breyer, J. dissenting).
43. *Id.*
44. *Id.* at 2921 (quoting Bonita Boats, Inc. v. Thunder Craft Boats, Inc., 489 U.S. 141, 146 (1989), and citing *eBay*, 126 S. Ct. at 1842 (Kennedy, J., concurring)).
45. *Id.* at 2922.
46. *Id.* at 2923.
47. *Id.* at 2923–24.
48. *Id.* at 2923.
49. *Id.* at 2926–28.
50. 127 S. Ct. 764 (2007).
51. *Id.* at 767–68.
52. Gen-Probe Inc. v. Vysis, Inc., 359 F.3d 1376 (Fed. Cir. 2004).
53. *MedImmune*, 127 S. Ct. at 768.

the Federal Circuit established the rule that a licensee is not under threat of suit from the patent holder and therefore lacks standing to challenge the patent's validity.[54] Thus, to challenge the validity of a licensed patent, a licensee would be required to first breach the license contract.[55] Following *Gen-Probe*, the district court in *MedImmune* ruled that the presence of a valid license meant that there was no case or controversy between the parties and, thus, no Article III standing.[56] The Federal Circuit affirmed, relying on the *Gen-Probe* precedent.[57]

Writing for an 8-1 majority, Justice Scalia reversed the Federal Circuit decision. Rather than relying on the Federal Circuit's established rule in patent cases, Scalia applied the more generally applicable law regarding standing. Much of Scalia's reasoning turned on the licensing agreement between the parties, which he found did not presume the patents it concerned to be valid.[58] Later, he concluded that "promising to pay royalties on patents that have not been held invalid does not amount to a promise not to seek a holding of their invalidity."[59]

Also, Scalia focused on the presence of an imminent threat of suit, analogizing the case to situations outside of patent law where parties have not been required to expose themselves to liability before they could sue for declaratory judgment.[60] In doing so, he focused on the coercive effect of treble damages should MedImmune lose in a suit that required a breach of the license to be initiated.[61] Justice Scalia explained that his ruling was consistent with the Court's prior ruling in *Altvater v. Freeman*,[62] where the Court had also upheld a licensee's right to sue for declaratory judgment without breaching a license that was established by court injunction.[63]

How broadly this ruling will impact existing licensing agreements has not yet been determined. Future courts may very well distinguish *MedImmune* on the facts of the case or the terms in the contract. It is also likely that future contracts will contain some sort of "*MedImmune*" clause that either establishes the presumed validity of the patents covered or makes clear that a suit will act as breach of the contract.

4. *Obviously "gobbledygook"*: KSR International Co. v. Teleflex Inc.

Certainly no case this year, and possibly no case in the history of the Federal Circuit, has more clearly illustrated the Supreme Court's opposi-

54. 359 F.3d at 1382.
55. *MedImmune*, 127 S. Ct. at 768.
56. *Id.*; *see also* Gen-Probe Inc., 359 F.3d at 1381.
57. *MedImmune*, 127 S. Ct. at 768.
58. *Id.* at 769–70.
59. *Id.* at 776.
60. *Id.* at 772–73. Such situations have included potential liability to either the government or a private entity operating with a court injunction. *Id.*
61. *Id.* at 773.
62. 319 U.S. 359 (1943).
63. *Id.* at 371.

tion to a Federal Circuit rule than *KSR International Co. v. Teleflex Inc.*[64] At the center of the controversy is the appropriate test for obviousness: the determination of whether or not a patent is innovative in light of the prior art, or whether "the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains."[65]

To make this determination, both the patent office and the courts look to a test that has been developed over twenty-five years, since shortly after the Federal Circuit's formation in 1982.[66] This test is referred to as "teaching, suggestion, or motivation to combine" ("TSM") and requires the party seeking invalidity to "establish some 'suggestion, teaching, or motivation' that would have led a person of ordinary skill in the art to combine the relevant prior art teachings in the manner claimed."[67] The Federal Circuit created the TSM test as a way to protect patents against hindsight analysis, since the solution to a problem frequently seems "obvious" in retrospect. This test has been used in hundreds of cases as the basis for determining the validity of patents and by the Patent and Trademark Office in their evaluation of thousands of patents each year.[68] However, during oral argument before the Supreme Court, the test was labeled "gobbledygook" by Justice Scalia and "worse than meaningless" by Chief Justice Roberts.[69]

a. Background/Procedural History

The patent in *KSR* pertained to an adjustable pedal assembly utilizing an electronic throttle control for an automobile. An adjustable pedal assembly allows the position of the pedals in a vehicle to be changed to accommodate drivers of varying leg length, while an electronic throttle substitutes for its mechanical predecessor, which relied on cables. Both of these elements existed in the prior art.[70] The alleged innovation of Plaintiff Teleflex's patent involved the placement of the electronic control and the design of the entire assembly resulting in a "simplified vehicle control pedal assembly that is less expensive, and which uses fewer parts

64. 126 S. Ct. 327 (2005).

65. 35 U.S.C. § 103(a) (2006).

66. Anne Broache, *Supreme Court to Examine 'Obviousness' of Patents*, CNET NEWS.COM, Nov. 27, 2006, http://news.com.com/Supreme+Court+to+examine+obviousness+of+patents/2100-1014_3-6138026.html; Petition for Writ of Certiorari at 3, KSR Int'l Co. v. Teleflex, Inc., No. 04-1350, 2005 WL 835463 (Apr. 6, 2005); *see also* Stratoflex, Inc. v. Aeroquip Corp., 713 F.2d 1530, 1540 (Fed. Cir. 1983); Medtronic, Inc. v. Cardiac Pacemakers, Inc., 721 F.2d 1563, 1566 (Fed. Cir. 1983) (declining to create the classification of "combination" patents).

67. Teleflex Inc. v. KSR Int'l Co., 119 F. App'x 282, 285 (Fed. Cir. 2005).

68. Petition for Writ of Certiorari at 3, KSR 2005 WL 835463.

69. Transcript of Oral Argument at 40–41, KSR Int'l Co. v. Teleflex Inc., No. 04-1350 (Nov. 28, 2006).

70. *Teleflex*, 119 F. App'x at 283–84.

and is easier to package within the vehicle."[71] The district court found the patent an obvious combination of the prior art and granted Defendant KSR's Motion for Summary Judgment.[72]

The Federal Circuit reversed in an unpublished opinion, finding "that the district court's analysis applied an incomplete teaching-suggestion-motivation test in granting KSR summary judgment."[73] It found that the district court had invalidated the patent on obviousness grounds "without making 'findings as to the specific understanding or principle within the knowledge of a skilled artisan that would have motivated one with no knowledge of the invention to make the combination in the manner claimed.'"[74] In October 2005, the Supreme Court invited the Solicitor General to file a brief, and in June 2006, the court granted certiorari.[75]

b. Federal Circuit Reaction

i. Federal Circuit Backpedaling Begins: In re Kahn

In anticipation of the TSM test facing scrutiny before the Supreme Court, the Federal Circuit addressed the test's merits. In March, *In re Kahn*[76] sustained a finding of obviousness from the Board of Patent Appeals and Interferences.[77] The patent involved a reading machine for the blind.[78] The Federal Circuit emphasized the importance of avoiding hindsight in making the determination of obviousness, requiring the Board to "articulate the basis on which it concludes that it would have been obvious to make the claimed invention" and emphasizing that "when the Board does not explain the motivation, or the suggestion or teaching, . . . we infer that the Board used hindsight to conclude that the invention was obvious."[79] This requirement clearly stated, that "[a] suggestion, teaching, or motivation to combine the relevant prior art teachings does not have to be found explicitly in the prior art."[80] The Federal Circuit found substantial evidence to support the Board's finding of a motivation to combine and upheld their decision.[81]

ii. Plugging More Holes in Leaky Obviousness Test: Alza Corp. v. Mylan Laboratories, Inc.

Similar to *Kahn*, the September 2006 case *Alza Corp. v. Mylan Labora-*

71. Teleflex Inc. v. KSR Int'l Co., 298 F. Supp. 2d 581, 586 (E.D. Mich. 2003).
72. *Id.* at 596.
73. *Teleflex*, 119 F. App'x at 288. The Federal Circuit also found that genuine issues of material fact were present, precluding a ruling on summary judgment. *Id.* at 289.
74. *Teleflex*, 119 F. App'x. at 288 (quoting In re Kotzab, 217 F.3d 1365, 1371 (Fed. Cir. 2000)).
75. KSR Int'l Co. v. Teleflex, Inc., 126 S. Ct. 327 (2005); KSR Int'l Co. v. Teleflex, Inc., 126 S. Ct. 2965 (2006).
76. 441 F.3d 977 (Fed. Cir. 2006).
77. *Id.* at 980.
78. *Id.*
79. *Id.* at 986.
80. *Id.* at 987.
81. *Id.* at 991.

tories, Inc.[82] sustained a district court finding of obviousness.[83] Plaintiff Alza held a patent for a once-a-day extended release formulation of the anti-incontinence drug oxybutynin.[84] In its discussion of obviousness and the TSM test, the Federal Circuit quoted heavily from *Kahn*, both for its formulation of the test and to emphasize that teaching, suggestion, and motivation may be found implicitly.[85] It went on further to say, "it is essential to recognize that . . . under our non-rigid 'motivation-suggestion-teaching' test, a suggestion to combine need not be found in the prior art," but can also be found in the knowledge of "one of ordinary skill in the art."[86] The court found the testimony of an expert sufficient to sustain the district court's finding of a teaching to combine.[87]

iii. Federal Circuit, Master of the Obvious: Hundred Year-Old Dyeing Technique Not Patentable: Dystar Textilfarben GMBH v. C.H. Patrick Co.

The Federal Circuit's most vigorous defense of its TSM test came in *Dystar Textilfarben GMBH v. C.H. Patrick Co.*[88] The patent asserted by plaintiff Dystar concerned a process for dyeing cloth.[89] In reversing the district court's denial of a motion for judgment as a matter of law on behalf of the defendants, the Federal Circuit continued to emphasize the flexibility of the TSM test as well as its importance in preventing hindsight, citing both *Kahn* and *Alza*.[90]

Remarkably, the Federal Circuit's discussion of the TSM test specifically addressed criticisms aimed at the test by outside commentators, refuting characterizations of the test as a "rigid categorical rule."[91] Dystar had argued that the court's TSM test required that the cited references contain an explicit teaching, suggestion, or motivation to combine.[92] The Federal Circuit responded that such a view "misreads this court's cases and misdescribes our suggestion test, echoing notions put forth recently by various commentators and accepted in major reports," continuing on to name reports by the Federal Trade Commission and the National Academy of Science.[93] Later, the Federal Circuit warned against "the danger inherent in focusing on isolated dicta" and observed that "our suggestion test is in actuality quite flexible and not only permits, but requires, consideration of common knowledge and common sense."[94]

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82. 464 F.3d 1286 (Fed. Cir. 2006).
83. *Id.* at 1228.
84. *Id.* at 1288.
85. *Id.* at 1290–91.
86. *Id.* at 1294.
87. *Id.*
88. 464 F.3d 1356 (Fed. Cir. 2006).
89. *Id.* at 1359.
90. *See id.* at 1359–61.
91. *Id.* at 1361.
92. *Id.* at 1364.
93. *Id.* at 1365.
94. *Id.* at 1367.

In summary, the Federal Circuit presented a rigorous reassertion of the TSM test, devoting a paragraph or more to explaining how each of nine different precedential Federal Circuit or Supreme Court cases supported their flexible conception of the TSM test.[95] In the end, the Federal Circuit applied the TSM test to find the patented dyeing process obvious.[96] Significantly, *Kahn*, *Alza*, and *Dystar* all reached the conclusion that the claims of the patent-in-question were obvious based on implicit, rather than explicit, indications of a teaching, suggestion, or motivation to combine in the prior art.

c. Supreme Court Response

The Federal Circuit's efforts to better characterize its test did not prevent the Supreme Court from taking a harsh view of the TSM test during oral argument. As mentioned above, Chief Justice Roberts and Justice Scalia seemed to find the test particularly bothersome.[97] Also, Justice Breyer indicated great difficulty in understanding what was meant by a "motivation" to combine, while Justice Souter referred to the current test as an "error."[98]

However, the Federal Circuit's efforts did not go unnoticed. Justice Alito questioned, "Well, once you define the teaching, suggestion and motivation test that way so it can be implicit . . . I don't quite understand the difference between that and simply asking whether it's obvious. Could you just explain what it adds?"[99]

The Justices did seem concerned about the consequences of discarding the test. Justice Souter asked, if the test was changed, "are there going to be 100,000 cases filed tomorrow morning?"[100] Justice Kennedy seemed to suggest keeping the test in at least some form, asking "does it not serve to show us at least one way in which there can be obviousness?"[101] Of course, no substantive conclusions can be drawn from the Justices' questions; for that, only time and a published opinion will suffice.

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95. *Id.* at 1365–70 (addressing In re Dembiczak, 175 F.3d 994 (Fed Cir. 1999); Ruiz v. A.B. Chance Co., 234 F.3d 654 (Fed. Cir. 2000); In re Lee, 277 F.3d 1338 (Fed Cir. 2002); Pro-Mold & Tool Co., Inc. v. Great Lakes Plastics, Inc., 75 F.3d 1568 (Fed. Cir. 1996); Sandt Tech., Ltd. v. Resco Metal & Plastics Corp., 264 F.3d 1344 (Fed. Cir. 2001); Mazarri v. Rogan, 323 F.3d 1000 (Fed. Cir. 2003); Anderson's-Black Rock, Inc. v. Pavement Salvage Co., 396 U.S. 57 (1969); Sakraida v. AG Pro. Inc., 425 U.S. 273 (1976); United States v. Adams, 383 U.S. 39 (1966)).

96. *Id.* at 1372.

97. Transcript of Oral Argument at 40–41, KSR Int'l Co. v. Teleflex, Inc., No. 04-1350 (Nov. 28, 2006).

98. *Id.* at 9, 20.

99. *Id.* at 39–40. To which Chief Justice Roberts responded, "It adds a layer of Federal Circuit jargon that lawyers can bandy back and forth, . . . it's worse than meaningless because it complicates the inquiry rather than focusing on the statute." *Id.* at 40.

100. *Id.* at 21.

101. *Id.* at 12.

5. Software Patentability Bombshell?: Microsoft Corp. v. AT&T Corp.

The recent trend of the Supreme Court hearing patent cases continues in 2007 with the case of *Microsoft Corp. v. AT&T Corp.* While the case is less applicable generally to patent law than other recent cases on injunctions, licenses, and obviousness, it is significant because of its international implications in a world where borders seem to hem in intellectual property less than ever before.

Microsoft v. AT&T concerns 35 U.S.C. §271(f), which attempts to limit infringement of United States patents abroad by making it an infringing act to supply or contribute to the supplying of components of a patented invention outside of the United States if those components are then used in a manner that would constitute infringement within the United States.[102] In this particular case, Microsoft incorporated a component of patented AT&T software into its own software, burnt the software onto Golden Master CDs, and then shipped the Golden Masters overseas.[103] Once overseas, the Golden Masters were duplicated, and the software was installed onto computers.[104] AT&T brought suit under § 271(f), alleging that installation of the software onto computers violated its patent.[105] The district court ruled in AT&T's favor, finding on partial summary judgment that § 271(f) applied, and the Federal Circuit panel affirmed 2-1, with Judge Rader dissenting.[106]

Two questions are at issue before the Supreme Court. The first is whether computer software qualifies as a "component" for purposes of § 271(f).[107] Should the Court find that it does, the second question concerns the breadth of what is considered to be "supplied" from the United States—here foreign-produced copies of the U.S.-sourced software loaded onto computer hardware at foreign locations.[108]

At oral argument the Justices raised two possible issues. First, it appeared that the Court may use *Microsoft v. AT&T* as an opportunity to speak on the patentability of software, with Justice Breyer stating, "I take it that we are operating under the assumption that software is patentable? We have never held that in this Court, have we?"[109] Second, the Court seemed concerned by the implication of ruling in AT&T's favor, with Justice Breyer commenting that he was "frightened" of deciding for AT&T and then discovering "all kinds of transmissions of information have themselves and alone become components."[110] Whichever way the Court decides, the case will have significant implications for the software indus-

102. 35 U.S.C. § 271(f)(1) (2001).
103. AT&T Corp. v. Microsoft Corp., 414 F.3d 1366, 1368 (Fed. Cir. 2005).
104. *Id.*
105. *Id.*
106. *Id.* at 1368, 1372.
107. Petition for Writ of Certiorari at ii, Microsoft Corp. v. AT&T Corp., No. 05-1056 (Feb. 17, 2006).
108. *Id.*
109. Transcript of Oral argument at 22, Microsoft Corp. v. AT&T Corp., No. 05-1056 (Feb. 21, 2007).
110. *Id.* at 43.

try and possibly for the overall protection given to U.S. patents beyond U.S. borders.

B. TAKING THE HEAT?: THE FEDERAL CIRCUIT ON PATENTS

Not all of the important or interesting decisions in patent law came out of the Supreme Court. In addition to the decisions outlined above, the following cases discussing inequitable conduct and claim construction have been selected for review in this Survey.

1. Inequitable Conduct

The Federal Circuit issued two significant opinions regarding the defense of inequitable conduct in 2006. "Inequitable conduct occurs when a patentee breaches his or her duty to the Patent and Trademark Office ("PTO") of candor, good faith, and honesty."[111] In particular, it may arise when the patentee fails to disclose material information to the PTO.[112] In order to establish inequitable conduct, a litigant must show that the patent applicant withheld information material to patentability with an intent to mislead.[113] A finding of inequitable conduct renders the entire patent unenforceable.[114]

a. Patent Holder Swallows Bitter Pill: *Ferring B.V. v. Bar Labs., Inc.*

In *Ferring B.V. v. Bar Labs., Inc.*, the Federal Circuit affirmed the district court's finding of inequitable conduct on summary judgment based on the patentee's failure to disclose a financial relationship between the applicant and declarants who provided statements in support of the application.[115] The patent concerned an improvement in the method of administering an antidiuretic composition to allow it to be taken via a solid oral dosage (i.e., swallowed).[116] At the request of the patent office, patentee Ferring twice submitted declarations. Ferring submitted a first set of declarations to establish that the term "peroral" in a prior patent did not encompass swallowing. Following two examiner rejections and a separate rejection by the Board of Patent Appeals and Interferences, Ferring submitted additional declarations to show that the proposed patent was not obvious.[117]

The Federal Circuit explained that a relationship between an applicant and a declarant was material "if (1) the declarant's views on the underlying issue are material and (2) the past relationship to the applicant was a

111. Ferring B.V. v. Bar Labs., Inc., 437 F.3d 1181, 1186 (Fed. Cir. 2006) (internal quotations omitted).
112. *Id.*
113. *See id.*
114. *Id.*
115. *Id.* at 1183–85.
116. *Id.* at 1183.
117. *Id.* at 1184–85.

significant one."[118] Because the examiner's decision to accept the proposed claims clearly turned on the issues for which the PTO requested declarations, the Federal Circuit found the declarant's views material.[119] Also, because three declarants received financial compensation from Ferring before, during, and/or after the submission of the declaration, the Federal Circuit found the relationship significant.[120]

Regarding intent, the Federal Circuit found that intent to deceive may be inferred on summary judgment where

> there has been a failure to supply highly material information and if the summary judgment record establishes that (1) the applicant knew of the information; (2) the applicant knew or should have known of the materiality of the information; and (3) the applicant has not provided a credible explanation for the withholding.[121]

The Federal Circuit found that Ferring satisfied all three of the above requirements: (1) Ferring was aware of its financial relationship with the declarants; (2) the nature and timing of the examiner's requests for information (i.e., after expressing concerns about validity and then following repeated rejections of the proposed claims) conveyed their materiality; and (3) Ferring provided no actual explanation for withholding the information, only arguing as to possible explanations.[122] Accordingly, the Federal Circuit upheld the summary judgment finding of inequitable conduct.[123]

b. Disclosure Slip-Up Leaves No Stain on Patent: *Kemin Foods, L.C. v. Pigmentos Vegetales Del Centro S.A. de C.V.*

The Federal Circuit again addressed inequitable conduct in *Kemin Foods, L.C. v. Pigmentos Vegetales Del Centro S.A. de C.V.*,[124] this time clarifying that a finding of inequitable conduct need not follow from a finding of materiality and intent.[125] Patentee Kemin alleged that the defendant Pigmentos Vegetales ("PIVEG") had infringed their patent on the extraction of lutein, an organic, naturally occurring pigment.[126]

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118. *Id.* at 1188.
119. *Id.* at 1188–89.
120. *Id.* at 1189–90.
121. *Id.* at 1191 (citing Bruno Indep. Living Aids, Inc. v. Acorn Mobility Servs., Ltd., 394 F.3d 1348, 1354 (Fed. Cir. 2005); Critikon, Inc. v. Becton Dickinson Vascular Access, Inc., 120 F.3d 1253, 1257 (Fed. Cir. 1997)).
122. *Ferring*, 437 F.3d at 1191–93.
123. *Id.* at 1195. *Ferring* is a 2–1 panel decision over the strenuous dissent of Judge Newman, who cautioned against a return to an era where low standards for showing inequitable conduct led to the invalidation of many patents. *Id.* at 1195. The standards of review used for reviewing determinations of inequitable conduct are also interesting. The Federal Circuit reviewed the findings as to the presence of materiality and intent "without deference." *Id.* at 1187. However, the Federal Circuit reviewed the determination as to whether the level of materiality and intent justified a finding of inequitable conduct for abuse of discretion. *Id.* at 1194.
124. 464 F.3d 1339 (Fed Cir. 2006).
125. *Id.* at 1343.
126. *Id.*

PIVEG claimed that Kemin's patents were unenforceable due to inequitable conduct.[127] With regard to one of the patents, both the court and the jury (via an advisory verdict) concluded that Kemin's president withheld material information with the intent to deceive.[128] However, the district court "ultimately conclude[d] the levels of materiality and intent are not so high as to warrant a finding of culpable intent such that the . . . patent should be held unenforceable."[129]

The Federal Circuit panel upheld the determination of the district court. It found "no clear error" in the district court's finding that the withheld information had "low" materiality.[130] The prior art withheld concerned a trade article describing a process similar to Kemin's patent.[131] However, there was no persuasive evidence that the article's method would produce the composition disclosed, and PIVEG made no argument as to why the article had high materiality.[132] Without more, the Federal Circuit found no basis for finding clear error.[133]

Regarding intent, the district court had found intent "tenuous" and that the jury's finding of intent was "reached on a shallow basis."[134] Kemin's president had explained that he did not provide the article because he believed the method described did not produce lutein fit for human consumption, which the district court found plausible.[135] Kemin's president had done some prior experiments using the article's methods, but these experiments had occurred two years prior to the prosecution of the patent application, the president was not an inventor of the patent, and he was only tangentially involved in its prosecution.[136] The Federal Circuit panel found that these facts mitigated against a finding of deceptive intent and found no error in the district court's determination.[137]

The Federal Circuit opinion then explained that "[e]ven when a court finds that the patentee failed to disclose material information to the PTO and acted with deceptive intent, the court retains discretion to decide whether the patentee's conduct is sufficiently culpable to render the patent unenforceable."[138] Having found no error with the district court's determinations regarding materiality or intent, the panel affirmed the finding of no inequitable conduct.[139]

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127. *Id.*
128. *Id.* at 1345.
129. *Id.*
130. *Id.* at 1345–46.
131. *Id.* at 1345.
132. *Id.*
133. *Id.* at 1346.
134. *Id.*
135. *Id.*
136. *Id.*
137. *Id.*
138. *Id.*
139. *Id.* The panel's opinion also addressed other issues raised by the parties' arguments. Most significantly, it found error in a magistrate judge's decision to disallow a supplemental expert report pertaining to an allegation of infringement of an additional patent claim where the patentee had continually advised the court that it may be adding the claim

2. *Just Say De Novo to Drugs*: Amgen Inc. v. Hoechst Marion Roussel, Inc.

Ever since its decision in *Cybor Corp. v. FAS Technologies., Inc.*,[140] the Federal Circuit has reviewed district court determinations of the meaning of patent claim terms under a *de novo* standard.[141] Since that decision, the policy of affording no deference has come under criticism, including criticism from the Federal Circuit itself. In November 2006, in a denial of petition for rehearing *en banc* in the case of *Amgen Inc. v. Hoechst Marion Roussel, Inc.*,[142] the internal conflict over *Cybor* reached its highest point to date.

At the time of the decision, Amgen had undergone almost ten years of litigation.[143] Amgen brought a declaratory judgment action in April 1997, alleging that Hoechst Marion Roussel's new application for a product based on the hormone erythropoietin ("EPO") infringed its patents.[144] After remand, the case returned to the Federal Circuit for review of the district court's construction of the term "therapeutically effective amount," and the determinations resulting therefrom.[145] In a 2-1 panel decision, the Federal Circuit held that the district court erred in its construction of the term "therapeutically effective amount."[146] Amgen submitted a petition for rehearing *en banc*, which the Federal Circuit denied.[147]

However, along with the denial of rehearing *en banc*, eight of the twelve judges filed concurring or dissenting opinions.[148] Several judges dissented for the specific purpose of reconsidering *Cybor*. Chief Judge Michel, who also dissented in the above panel decision, authored a dissent joined by Judges Rader, Newman, and Moore in which he said of *Cybor*: "I have come to believe that reconsideration is appropriate and revision may be advisable."[149] He then outlined four problems with the current regime:

> (1) a steadily high reversal rate; (2) a lack of predictability about appellate outcomes, which may confound trial judges and discourage settlements; (3) loss of the comparative advantage often enjoyed by the district judges who heard or read all of the evidence and may have spent more time on the claim constructions than we ever could on appeal; and (4) inundation of our court with the minutia of con-

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if it received evidence of infringement regarding that claim through discovery. *See id.* at 1350–52.

140. *See* 138 F.3d 1448 (Fed. Cir. 1998).

141. *Id.* at 1451.

142. 469 F.3d 1039, 1040 (Fed. Cir. 2006) ("*Amgen (en banc)*").

143. *See* Amgen Inc. v. Hoechst Marion Roussel, Inc., 457 F.3d 1293, 1321 (Fed. Cir. 2006) ("*Amgen IV*").

144. *Id.* at 1295–96.

145. *Id.* at 1296–97.

146. *See id.* at 1297.

147. *Amgen (en banc)*, 469 F.3d at 1040 (*en banc*).

148. *See id.*

149. *Id.* (Michel, C.J. dissenting).

struing numerous disputed claim terms (in multiple claims and patents) in nearly every patent case.[150]

Michel concluded his dissent by stating, "I believe the time has come for us to re-examine *Cybor*'s no deference rule. I hope that we will do so at our next opportunity, and I expect we will."[151]

The other dissenting judges had similar themes. Judge Newman authored his own dissent in which he first criticized the panel's decision to overturn the district court's construction and then concluded by asserting the need to "rethink the optimum approach," suggesting that standards similar to those used in the review of mixed scientific fact and law for determinations on expert testimony may prove useful.[152] Judge Rader cited the Supreme Court in *Markman v. Westview Instruments, Inc.*[153] for support of the position that claim construction was not a purely legal issue and should not be reviewed as such.[154] Finally, Judge Moore also authored a dissent, stating both that the original district court claim construction was correct and that the Federal Circuit should have taken the case *en banc* to reconsider *Cybor*.[155]

Additionally, three concurring judges, Gajarasa, Linn, and Dyk, also indicated a willingness to revisit *Cybor*, even though they agreed with the denial of an *en banc* rehearing of *Amgen*. Their decision to concur in the denial was not "an unqualified endorsement of the *en banc* decision in *Cybor* . . ."[156] They indicated they would be willing to reconsider *Cybor* if the "appropriate case" arose—one where the district court needed to rely on conflicting expert evidence to interpret claim terms.[157]

Following *Amgen*, it now appears that at least eight members of the twelve judge circuit are willing to revisit the position of giving no deference to district court claim construction established in *Cybor*. In addition to the dissents of Michel, Newman, Rader, and Moore, Judge Mayer criticized *Cybor* on similar grounds in his dissent from the court in *Phillips v. AWH Corp.*[158] These five combine with the three *Amgen* concurring judges looking for an "appropriate case." It seems only a matter of time until such a case arrives before the Federal Circuit.[159]

150. *Id.*
151. *Id.* at 1041.
152. *Id.* at 1041, 1044 (Newman, J., dissenting).
153. 517 U.S. 370, 388 (1996).
154. *Amgen (en banc)*, 469 F.3d at 1044 (Rader, J., dissenting).
155. *Id.* at 1045–46 (Moore, J., dissenting).
156. *Id.* at 1045 (Gajarasa, Linn & Dyk, JJ., concurring).
157. *Id.*
158. 415 F.3d 1303, 1330 (Fed. Cir. 2005).
159. *See also* Michael R. Dzwonczyk, "Look at Patent Law Developments 2006: the Year in Review," American Intellectual Property Law Association online seminar, "Patent, Trademarks and Copyright: Hot Topics in 2006," for presentation January 12, 2007, 12:30 p.m. EST.

C. CONGRESS IS IN THE KITCHEN: PATENT REFORM LEGISLATION

Congress also appeared interested in making changes to the patent system in 2006. There have been two primary legislative initiatives: the first is a continuation of previous efforts to make changes in both substantive and procedural patent law, while the second involves the creation of a pilot program of patent courts.

In 2006, legislation on general patent reform presented a number of varied proposals, many of which had been submitted in prior years. Proposals included:

- Allowing post-grant opposition of patents, which would allow the initiation of adversarial proceedings on a patent's validity in the twelve months following a patent grant;
- Adopting a first-to-file priority rule for patents to replace the current first-to-invent rule;
- Abolishing continuation applications;
- Allowing interlocutory appeals of district court claim construction decisions;
- Creating a "loser pays" system providing attorney's fees to the prevailing party if the non-prevailing party's legal position was not justified;
- Changing the venue provision, reducing the number of districts available for a plaintiff to sue for patent infringement; and
- Repealing 35 U.S.C. § 271(f), which prohibits the export of component parts that, when assembled, constitute an infringing device.[160]

These proposed reforms could have a wide-ranging impact on the patent system, but with Congressional control changing parties in the new legislative session, the extent these proposals will continue is uncertain.

A new proposal that appears to have some momentum involves not changing patent law but instead reconfiguring the courts in which patent cases are heard. Currently only a pilot program, H.R. 5418, passed the house last September and, as H.R. 34, has done so again this year, both times under the sponsorship of Representative Darrell Issa.[161] The pilot program would last no longer than ten years and would designate particular "patent judges" in not less than five district courts in three different circuits.[162] In these districts, non-designated judges would have the option of turning any patent case they received over to a pool of designated patent judges, one of whom would be randomly selected to hear the case.[163] The proposal seeks to allow certain judges to build expertise in

160. *See* Andrew Cadel, et al., *Interlocutory Appeal is Proposed*, NAT'L L.J., Dec. 4, 2006, at S9-S10; *Senator Hatch Introduces Patent Reform Bill*, AIPLA Reports, August 4, 2006; Erik Larson, *House Eyes Patent Reform*, IP Law360, Portfolio Media, February 8, 2007.

161. *House Passes Bill on Pilot Program for Designating Judges in Patent Cases*, AIPLA Reports, Feb. 17, 2007; Darrell Issa, *Why I'm Pushing For The Patent Pilot Program*, IP Law 360, Portfolio Media, Jan. 25, 2007.

162. *Id.*

163. *Id.*

patent cases while maintaining a large enough pool so that assignment is not predetermined when a case is filed. In order for a district to qualify it must be one of the fifteen district courts with the largest number of patent cases filed, and it must have at least ten judges, three of which have volunteered to be designated as patent judges.[164]

III. TRADEMARK UPDATE

A. TRADEMARK DILUTION REVISION ACT

On October 6, 2006, President Bush signed the Trademark Dilution Revision Act of 2006 ("TDRA").[165] Trademark dilution encompasses methods of infringement distinct from trademark confusion, which is the more traditional cause of action under trademark law.[166] Originally, the protection of trademarks had, as a purpose, preventing confusion in the marketplace; in theory, consumers benefit from having the ability to identify both a product's identity and quality by the product's mark.[167] In contrast to trademark confusion, actions for trademark dilution usually arise from the utilization of another's mark for different, unrelated products. The danger is not that a customer may think the two products are the same, but rather that the mark will lose significance or meaning.

The TDRA has two primary effects. First, and most importantly, it overturns the Supreme Court's decision in *Moseley v. V Secret Catalogue, Inc.*, where the Court held that proof of actual dilution was required.[168] In *Moseley*, plaintiff Victoria's Secret alleged that its eponymous mark was infringed by the defendant's store, Victor's Little Secret, which sold lingerie and adult novelty items.[169] The Plaintiff was successful at both the district and appellate court, but the Supreme Court reversed, applying a plain-language interpretation to the statute to find that "evidence of dilution" referred to evidence of actual dilution, not merely the likelihood of dilution.[170] The TDRA reverses the effects of the Supreme Court's rulings in *Moseley*, lowering the trademark owner's burden to showing only likelihood of dilution.[171]

Secondly, the TDRA describes two distinct causes of action for dilution: blurring and tarnishment.[172] Blurring is essentially what was originally conceptualized as dilution and results from the use of a mark for an

164. *Id.*

165. Posting of William McGeveran to Info/Law, http://blogs.law.harvard.edu/infolaw/ (Oct. 9, 2006 18:58 EST); *see also generally* Brian Darville & Anthony Palumbo, *The Trademark Dilution Revision Act of 2006: Facilitating Proof of Dilution for Truly Famous Marks*, INTERNET LAW & BUSINESS, Dec. 2006.

166. Indeed, dilution was not added as a cause of action in federal trademark law until 1995. *See* Moseley v. V Secret Catalogue, Inc., 537 U.S. 418, 421 (2003).

167. *Id.* at 428.

168. *Id.* at 433.

169. *Id.* at 423.

170. *Id.* at 433. Additionally, the Court indicated in dicta that tarnishment, a variety of trademark dilution, was without remedy under the statute. *Id.* at 432.

171. 15 U.S.C. § 1125(c)(1) (2006).

172. *Id.*

unrelated product, lessening the mark's significance or meaning.[173] Tarnishment also lessens a mark's significance or meaning but does so more actively, as when the mark is used for a product that itself has a negative connotation for quality or standing in the eyes of the public.[174]

In defining these causes of action, the TDRA also does much to clarify and standardize how courts should decide dilution cases. It outlines factors for courts to assess in determining dilution and gives definitions for both blurring and tarnishment.[175] It also defines a "famous" mark as "widely recognized by the general consuming public of the United States."[176] Because a mark must be famous in order to receive federal protection, marks that are only famous within a product niche or a geographic area are not protected.[177] Finally, the TDRA also defines a new "fair-use" defense to dilution.[178]

B. Counterfeit Marks: Better Mind the Trafficking Law

Use of another's trademark can lead to criminal, in addition to civil, liability. "Whoever intentionally traffics or attempts to traffic in goods or services and knowingly uses a counterfeit mark in connection with such goods or services . . ." may be held criminally liable.[179]

The Fifth Circuit addressed the sufficiency of evidence necessary to prove knowledge of counterfeit goods in *United States v. Zheng Xiao Yi*.[180] In *Zheng*, the United States seized two shipments of counterfeit goods, which it determined were headed for Zheng Xiao Yi's store.[181] Upon his arrest, Zheng allegedly confessed to knowing that certain goods

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173. *See* 15 U.S.C. § 1125(c)(2) (2006).

174. *See id.*

175. The non-exclusive list of factors for determining "dilution by blurring" is: (i) the degree of similarity between the mark or trade name and the famous mark; (ii) the degree of inherent or acquired distinctiveness of the famous mark; (iii) the extent to which the owner of the famous mark is engaging in substantially exclusive use of the mark; (iv) the degree of recognition of the famous mark; (v) whether the user of the mark or trade name intended to create an association with the famous mark; and (vi) any actual association between the mark or trade name and the famous mark. 15 U.S.C. § 1125(c)(2)(B) (2006). The above factors may also be used in determining dilution by tarnishment, along with an additional factor assessing harm by the infringing mark to the famous mark.

176. *See* 15 U.S.C. § 1125(c)(2) (2006).

177. *See* Lewis R. Clayton, *The Dilution Revision Act*, Nat'l L.J., Nov. 6, 2006, at 13.

178. *See* 15 U.S.C. § 1125(c)(3) (2006). Interestingly, one of the first cases to apply the new standards for dilution and tarnishment may arise out of a dispute concerning collegiate sport and school pride. On December 4th, 2006, the Board of Regents of the University of Texas System filed suit against an individual and a business that used a modified version of the University of Texas ("UT") logo in a T-Shirt popular with supporters of UT's rival school, Texas A&M University ("A&M"). UT's logo is the silhouette of the head of a longhorn cattle, and the allegedly infringing t-shirts depict the logo with the horns forcibly detached above the caption "Saw 'Em Off." The complaint alleges both dilution and tarnishment and was conspicuously filed less than two weeks after A&M's football team beat UT in their annual post-Thanksgiving contest. *See* Board of Regents v. Kalcorp Enters., Inc., No. AO6-CA-951-SS (W.D. Tex. filed Dec. 4, 2006).

179. 18 U.S.C. § 2320(a) (2000).

180. 460 F.3d 623, 629 (5th Cir. 2006).

181. *Id.* at 627.

in his store were counterfeit.[182] The jury convicted Zheng on all six counts of the indictment.[183]

However, the Fifth Circuit vacated the conviction with regard to the sixth count which pertained to counterfeit Nike sandals seized from the second shipment.[184] In order to find Zheng guilty, the government had to prove that "the defendant knew that the mark so used was counterfeit."[185] Zheng's inventory contained a mix of counterfeit and legitimate goods and his admissions only pertained to the items in his current inventory.[186] Agents found no sandals in Zheng's store or warehouse.[187] The government presented no direct evidence to show that Zheng knew the Nike sandals were counterfeit, and the Fifth Circuit found the inference arising from the knowledge of other counterfeit goods insufficient.[188]

Congress also addressed counterfeit marks, broadening the applicability of 18 U.S.C. section 2320, which provides criminal penalties for unlicensed trafficking in trademarked goods. On March 16, 2006, President Bush signed the Protecting American Goods and Services Act of 2005, aimed at the trafficking of counterfeit marks independent of the products they identify.[189] Prior to the new legislation, section 2320(a) was limited to trafficking in marks used in conjunction with a good or service.[190] This limitation left a loophole: counterfeiters could import unmarked goods separately from trademark labels. The labels could be quickly attached in the United States, and the completed counterfeits sold. Trademark owners had little power to stop such activities at the border.

The new anti-counterfeiting bill expanded the scope of the section to include the traffic in the labels themselves.[191] As a result, the traffic of counterfeit labels may now result in criminal liability even if the labels are divorced from the goods or services with which the mark is associated.

IV. COPYRIGHT UPDATE

A. ATTORNEY LEARNS COPYRIGHT LAW THE HARD WAY: *PHAM V. JONES*

The opinion in *Pham v. Jones*[192]reveals a copyright case of particular interest to attorneys. Plaintiff Pham and defendant Jones were both

182. *Id.* at 628.
183. *Id.*
184. *Id.* at 637.
185. *Id.* at 629–31 (quoting United States v. Hanafy, 302 F.3d 485, 487 (5th Cir. 2002)).
186. *Id.* at 630–31.
187. *Id.* at 630.
188. *Id.* The Fifth Circuit also held that the district court was required to present a basis for using the value of the infringed items, as opposed to the value of the infringing items, to determine pecuniary damages and vacated the sentencing determination, remanding for resentencing. *Id.* at 638.
189. *See* 18 U.S.C.S. § 2320 (LexisNexis Supp. 2007).
190. *Id.*
191. 18 U.S.C.S. § 2320 (2007).
192. No. H-05-2027, 2006 U.S. Dist. LEXIS 32932 (S.D. Tex. May 13, 2006).

criminal defense attorneys in the Houston area.[193] Pham solicited much of his business by sending letters and brochures to people whose names and addresses he obtained from county arrest records.[194] In April 2005, Jones also began soliciting clients using a version of Pham's letter and brochure.[195]

Pham sent Jones several letters asking Jones to discontinue using the brochure and letter and registered his letter and brochure with the Register of Copyrights.[196] Then, when Jones still failed to stop using the materials, Pham sued for copyright infringement.[197] The court entered a preliminary injunction preventing Jones from continuing to use the letter and brochure.[198] After the injunction was issued, Jones made some changes to the brochure and letter, but kept using both.[199]

The district court reviewed the modified letter and found it substantially similar.[200] Jones still used a format nearly identical to Pham's and had not changed the text of the letter "except for six instances in which Jones changed one word or added minor phrases to a sentence."[201] Finding infringement, the district court awarded damages equal to Jones's total revenue during the period of infringement, less expenses and attorneys fees, totaling over $43,000.[202]

B. Contributory Infringement Charges Too Blunt to Stick: *DSU Medical Corp. v. JMS Co., Ltd.*

While *DSU Medical Corp. v. JMS Co., Ltd.*[203] involves patents, it discusses issues raised by the most significant copyright opinion in recent years—the Supreme Court's opinion in *MGM Studios, Inc. v. Grokster Ltd.*[204] *Grokster* involved a lawsuit by copyright holders against distributors of free software that allowed its users to share electronic files without a central server.[205] The distributors were aware that users mainly used their software to download copyrighted files but argued that they could not be held contributorily liable because their software had substantial non-infringing uses.[206] Defendant's based this position on their reading of *Sony Corp. of America v. Universal City Studios, Inc.*, the Court's prior opinion on secondary infringement of copyright.[207] In *Sony*, the Court

193. *Id.* at *1.
194. *Id.* at *2.
195. *Id.*
196. *Id.*
197. *Id.* at *2–3.
198. *Id.* at *3.
199. *Id.* at *5.
200. *Id.* at *9–10.
201. *Id.* at *5–6.
202. *Id.* at *19–20.
203. DSU Med. Corp. v. JMS Co. Ltd., 471 F.3d 1293 (Fed. Cir. 2006).
204. MGM Studios, Inc. v. Grokster Ltd., 545 U.S. 913 (2005).
205. *Grokster*, 545 U.S. at 918–20.
206. *Id.* at 920–24.
207. *See id.* at 931–34; *see* Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417 (1984).

had held that VCR manufacturers were not liable for copying done by their users as the machines had a substantial non-infringing use.[208]

However, the Court distinguished *Sony*'s holding from the circumstances in *Grokster*. *Sony* barred imputing an intent to infringe based solely on the design or distribution of a product; it did not hold that a producer can never be held contributorily liable for a third party's infringing use just because of the presence of a substantially non-infringing use.[209] If intent to induce infringement is shown by evidence other than the product's characteristics or the defendant's knowledge of potentially infringing uses, secondary liability may still apply.[210] The Court based its reasoning on both patent and copyright common law, and, as it had in *Sony*, used an established doctrine in patent law to craft a sensible rule for copyright.[211]

DSU involved a patent for a needle guard, a device that covers the tips of medical needles to prevent needle-stick injuries.[212] Plaintiff DSU owned a patent for a needle with the guard.[213] Defendant JMS was a medical supply company that sold needles with guards, which the jury found infringed.[214] Defendant ITL Corporation manufactured guards overseas and sold the guards, without needles, to JMS.[215] The jury found that ITL did not directly or contributorily infringe the patent.[216]

The Federal Circuit affirmed the jury's finding of no contributory infringement and took the opportunity to clarify conflicting precedent regarding the requirements for showing intent to induce infringement. First, the Federal Circuit pointed out a lack of necessary evidence.[217] To establish contributory infringement, the Federal Circuit required DSU to establish, along with other elements, "that JMS engaged in an act of direct infringement on those sales that ITL made [to JMS] in the United States."[218] The court perceived "an absence of evidence of direct infringement to which ITL contributed in the United States," as the needle guards did not infringe on their own.[219] ITL sold the guards to JMS and DSU; there was no direct evidence that the guards were combined with needles into an infringing use as an act of direct infringement in the United States.[220]

The Federal Circuit then went beyond its analysis of the sufficiency of evidence and issued a portion of the DSU opinion *en banc* to clarify the

208. *Sony*, 464 U.S. at 442.
209. *See Grokster*, 545 U.S. at 931–34.
210. *Id.* at 934–35.
211. *See id.* at 935–37.
212. *DSU*, 471 F.3d at 1297.
213. *Id.*
214. *Id.* at 1299.
215. *Id.* at 1298.
216. *Id.* at 1302.
217. *See id.* at 1302–04.
218. *Id.* at 1303.
219. *Id.*
220. *Id.* at 1303–04.

intent that must be established to support a claim for contributory infringement.[221] The Federal Circuit relied heavily on the Supreme Court's discussion of contributory infringement in *Grokster*. "[M]ere knowledge of possible infringement by others does not amount to inducement; specific intent and action to induce infringement must be proven."[222] Further, the Federal Circuit found that "*Grokster* has clarified that the intent requirement for inducement requires more than just intent to cause the acts that produce direct infringement."[223] "Accordingly, inducement requires evidence of culpable conduct, directed to encouraging another's infringement, not merely that the inducer had knowledge of the direct infringer's activities."[224] Thus, as a result of the earlier mentioned lack of evidence and the clarified requirements to show intent, the Federal Circuit affirmed the district court's refusal to grant a new trial with respect to the jury's finding of ITL's non-infringement.[225]

V. CONCLUSION

Intellectual property continues to escalate in importance to the world, United States, and East Texas economies. With that rising importance comes increased scrutiny. 2007 will be another significant year in the ongoing development of our intellectual property laws. At the state level, Texas will continue to be instrumental in the development of intellectual property law—from the Northern and Southern District of Texas looking at crafting local patent rules, to the Eastern District of Texas continuing to be a national focal point. At the national level, legislative reform may happen, and obviously the Supreme Court will continue to hand down decisions that will impact patents and patent litigation. Copyright laws will be examined and interpreted in light of new services like YouTube®. Search engines such as Google® will continue to focus attention on the value, usefulness, and boundaries of trademarks. Technology is pushing the economy in new directions with ever-increasing speed, and the laws governing intellectual property are being crafted and interpreted to keep up.

221. *See id.* at 1304–06 (*en banc*).
222. *Id.* at 1305 (quoting Warner-Lambert Co. v. Apotex Corp., 316 F.3d 1348, 1364 (Fed. Cir. 2003)); *see also Grokster*, 545 U.S. at 937 ("mere knowledge of infringing potential or of actual infringing uses would not be enough here to subject a distributor to liability").
223. *DSU*, 471 F.3d at 1306.
224. *Id.* at 1306 (citing *Grokster*, 545 U.S. at 937).
225. *Id.* at 1311.