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SEEKING LIBERTY & JUSTICE

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Supreme Court Eases Bar for Licensees to Challenge Licensed Patents

So . . . What Do You Do as a Licensee? Licensor?

By Michael D. McCoy, George M. Taulbee and Kevin O'Brien

Summary

In its Jan. 9, 2007, opinion in **MedImmune, Inc. v. Genentech, Inc.,**[1] the Supreme Court removed a significant barrier to licensees desiring to challenge the validity or enforceability of patents they operate under. In a near unanimous opinion (Justice Thomas was the sole dissenter), the Supreme Court held that a patent licensee need not breach its license, and thereby risk injunctive and enhanced monetary damages, before seeking a declaration under the Declaratory Judgment Act of patent invalidity, unenforceability, or noninfringement. This ruling

See **SUPREME COURT** *page 4*

The Chair's Comments

Michael A. Tobin

The end of the North Carolina Bar Association year is almost upon us and in this, my last, Chair's Comments, I would like to thank our section's CLE Committee, bring section members up to date on the section's annual pro bono award winners, and let everyone know who will be serving as section officers and council members next year.

Thank You to the CLE Committee

As I'm sure those who attended will agree, our section's recent CLE program at the Grandover Resort & Conference Center on April 13, 2007 was a resounding success. Great programs don't happen accidentally; they result from much hard work. Please join me in extending thanks to the following members of the section's CLE Committee: Cynthia Rothschild, Myra Askins-Sullivan, Jennifer Skord, Susan Freya Olive and Arthur DeBaugh. Also, remember to save the date for the section's 2008 CLE/annual meeting, which will be held on April 11, 2008 at the Embassy Suites in Concord.

See **COMMENTS** *page 2*

Patent Licensing Strategies in View of MedImmune v. Genentech

By Nilay D. Patel

On Jan. 9, 2007, the U.S. Supreme Court's decision in **MedImmune, Inc. v. Genentech, Inc., et al.**, 127 S. Ct. 764 (2007), profoundly changed the landscape of patent licensing. No longer must a licensee breach a license agreement before seeking a declaratory judgment on the underlying patent's invalidity, unenforceability, or non-infringement. Now, as a license agreement can no longer be construed an "insurance policy" against infringement suits or as a preemptive "settlement" of dispute between the parties, certain *ex ante* strategies should be imple-

See **PATENT LICENSING** *page 3*

Editors' Note: We have the rare opportunity in this issue of *IP Links* to publish two articles about the same topic—the recent **MedImmune** decision by the Supreme Court. Interestingly, the authors have different views about the impact the case will have on patent licensing. Does the decision "profoundly change the landscape," as one article contends, or is it "not a momentous shift," as the other argues? Time will tell. In the meantime, here are the articles.

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Editors
David Sar
Eric Mills

Editorial Address
P.O. Box 3688
Cary, NC 27519

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IP Section Pro Bono Awards

Each year our section recognizes pro bono efforts of its members by presenting an individual pro bono services award and a firm pro bono services award. Awardees receive a recognition plaque, and the section makes a small donation in their names to Legal Services.

This year's individual pro bono award winner is Laura Miller, an associate practicing with Kilpatrick Stockton in Winston-Salem. Laura provided over 110 hours of pro bono service during 2006. In addition to representing a wide variety of nonprofit organizations, including the Amani Children's Foundation, the Flora MacDonald Legacy Foundation, the Children's Fund of North Carolina and the Ronald McDonald House of Winston-Salem, Laura's pro bono efforts included participation in the "Wills on Wheels" program that provides wills to indigent persons and representation of domestic violence victims at 50B protective order hearings. Laura is also trained to represent relatives seeking to adopt children in the "Grandparent Adoption Program" in North Carolina and has served as an attorney Guardian ad Litem.

This year's firm pro bono award winner—for the second consecutive year—is Kilpatrick Stockton. Twenty Kilpatrick Stockton IP attorneys in North Carolina provided over 800 hours of pro bono legal services in 2006 in a wide variety of different areas, including: participating in the "Wills on Wheels" program, serving as Guardians Ad Litem, participation in the Grandparent Adoption Program, representing clients in Domestic Violence Advocacy Center cases, and representing clients in landlord-tenant cases. The Grandparent Adoption Program was actually started by Kilpatrick Stockton as a way to assist low-income grandparents in adoption of grandchildren and other relatives. Kilpatrick Stockton promotes pro bono service through its policies and culture and subscribes to the "ABA Pro Bono Challenge" of providing pro bono service at a level equivalent to 3% of the firm's total billable hours. The N.C. IP attorneys contributed to the firm's surpassing this goal in 2006, with 3.5% of billable hours provided as pro bono service.

Please join me in congratulating Laura Miller and Kilpatrick Stockton's North Carolina IP attorneys for their tremendous support of pro bono services.

New Officers and Council Members

The officers for the next NCBA year will be:

Chair:
Kimberly Bullock Gatling (Smith Moore)

Vice Chair:
Mitch Tuchman
(Womble Carlyle Sandridge & Rice)

Treasurer:
Bob Crouse (Myers Bigel Sibley & Sajovec)

Secretary:
Cynthia Rothschild (Kilpatrick Stockton)

Members elected (or re-elected) to the IP Section Council next NCBA year are:

- Charles Calkins (Kilpatrick Stockton)
- Michael Allen (Carruthers & Roth)
- J. Joseph Timothy Meigs (Becton Dickinson and Company)
- Carmen Adams (Wachovia Corporation)
- Myra Askins-Sullivan (Kennedy, Covington, Lobdell and Hickman)

Finally, I would like to close by extending my thanks to the other section officers and council members, and to the section members with whom I've had the pleasure of serving. ❐

Editors' Comments

We are pleased to provide you with the last issue of *IP Links* of the North Carolina Bar Association's 2006-07 year. The next issue will be published in the fall. We would like to thank all of the individuals and firms/companies that submitted articles for publication. Providing these relevant and informative articles is an invaluable service to the section membership. Thank you for the opportunity to serve as editors, and we wish everyone a happy and safe summer!

David Sar
Eric Mills

mented during licensing negotiations in order to preserve the term and integrity of license agreements.

The MedImmune decision

In 1997, Petitioner MedImmune entered into a license agreement with respondent Genentech covering an existing patent ("Cabilly I") and a pending patent application ("Cabilly II"). Cabilly II issued in 2001, at which time Genentech asserted that MedImmune's product SYNAGIS® was covered by Cabilly II and thus owed royalties. MedImmune rejected such assertion but, feeling threatened by the risk of treble damages, attorney fees, and an injunction prohibiting the sale of SYNAGIS® (which accounted from 80% of MedImmune's sales), MedImmune capitulated to Genentech's demands and began paying royalties "under protest" while simultaneously filing for declaratory relief in the U.S. District Court for the Central District of California.

The District Court granted Genentech's motion to dismiss for lack of subject matter jurisdiction, relying on **Gen-Probe Inc. v. Vysis, Inc.,** 359 F.3d 1376 (Fed. Cir. 2004). **Gen-Probe** held that a patent licensee in good standing cannot establish an Article III case or controversy with regard to validity, enforceability, or scope of the patent because the license agreement "obliterate[s] any reasonable apprehension" that the licensee will be sued for infringement. *Id.* at 1381.

The Federal Circuit affirmed the District Court, also relying on **Gen-Probe.** In a seemingly emphatic 8-to-1 decision, however, the Supreme Court reversed the Federal Circuit, relying on Supreme Court precedent "fortuitously" on point. **Altvater v. Freeman,** 319 U.S. 359 (1943) held that a licensee's failure to cease its payment of royalties did not render non-justiciable a dispute over the validity of the patent:

> "[T]he requirements of [a] case or controversy are met where payment of a claim is demanded as of right and where payment is made, but where the involuntary or coercive nature of the exaction preserves the right to recover the sums paid or to challenge the legality of the claim." Altavater at 364.

The Federal Circuit's **Gen-Probe** decision had distinguished **Altvater** on the ground that it involved the compulsion of an injunction, i.e., a governmental sanction. The Supreme Court drew no such line between governmental and private-party coercion. As such, the Supreme Court held that a licensee is not required to breach the license agreement before challenging the validity, enforceability or noninfringement of the underlying patent.

License Provisions in Light of MedImmune

No Contest Clause

A reflexive reaction to the **MedImmune** holding may be to insert a "no contest" clause into license agreements, i.e., a clause prohibiting a licensee from challenging the underlying patent. However, the Supreme Court rejected the doctrine of licensee estoppel in **Lear, Inc. v. Adkins,** 395 U.S. 653 (1969). Indeed, such types of clauses have historically been held to be unenforceable, since protecting invalid or "bad" patents goes against the public interest.

However, it is worth noting that in **Flex-Foot, Inc. v. CRP, Inc.,** 238 F.3d 1362 (Fed. Cir. 2001), the Federal Circuit distinguished **Lear** and upheld a "no contest" clause because it was present in a license agreement that was a part of a settlement agreement. Thus, a distinction can be made between stand-alone license agreements and license agreements resulting from a settlement between parties and, as such, it is conceivable that a reconstruction of the former into the image of the latter may circumvent the public policy argument against "no contest" clauses.

Immediate Termination

Another strategy may be to insert a "termination" clause into license agreements, i.e., a clause that immediately terminates the license agreement upon licensee's challenging of the licensed patent. The licensor increases the stakes of litigation by doing so, because a favorable validity/enforceability finding would imply willful infringement and treble damages, and perhaps even injunctive relief. Although such termination clause may be construed as another creative contractual tactic designed to protect "bad" patents and thus expose it to legal challenge, there is no existing precedent for such interpretation.

Royalty Payments

Another strategy to preserve the term and integrity of a license agreement could be to alter the structure of royalty payments. For instance, a large upfront payment may discourage a licensee from challenging the underlying patent, although, as learned from **MedImmune,** payments made "in protest" may be recoverable. Alternatively, it is arguable that a lower royalty payment burden may deter a licensee from challenging the underlying patent.

Royalty payments may also be increased on the back end of the term, in lieu of a termination clause. For example, royalty payments may ramp upward upon licensee's initiation of a validity challenge and/or upon the failure of such a validity challenge.

Venue

Many argue that the **MedImmune** decision, along with the Supreme Court's decision in **eBay v. MercExchange,** 126 U.S. 1837 (2006), have effectively increased (or returned) discretion to federal district courts in patent litigation. In **eBay,** the Supreme Court held that the federal district courts shall consider the traditional four factor test for granting injunctive relief to a patentee, thus rejecting the Federal Circuit's predilection for automatic grants of injunction. In **MedImmune,** the Supreme Court left "the equitable, prudential, and policy argument in favor of such a discretionary dismissal [of the requested declaratory relief] for the lower courts' consideration," thus rejecting **Gen-Probe**'s "reasonable apprehension" test for declaratory judgment jurisdiction. **MedImmune** at 18. In other words, the Federal Circuit shall express greater deference to trial court judges and, accordingly, greater emphasis must be placed on choice of venue in licensing negotiations.

Furthermore, because a license no longer "obliterates any reasonable apprehension" of suit in light of **MedImmune,** it is conceivable that a hostile licensee may enter a license agreement merely to obtain an advantage in venue selection. As such, it is critical that venue and jurisdiction be negotiated and explicitly set forth in a license agreement.

Conclusion

With **MedImmune,** the Supreme Court has bolstered the overriding public policy of allowing patents to be challenged. In doing so it has removed a sense of finality from existing license agreements, and rewritten the rules of engagement for new license agreements. Looking forward, new drafting strategies will be needed to insure that license agreement remain an insurance policy against patent litigation. ❐

PATEL IS AN ATTORNEY AT LIFE SCIENCES LAW PLLC.

overruled Federal Circuit precedent in **Gen-Probe Inc. v. Vysis, Inc.,**[2] which held that there was no case or controversy, and therefore no subject matter jurisdiction, over such patent challenges because a licensee in good standing cannot establish any "reasonable apprehension" of being sued by the licensor.[3]

The Facts

In 1997, MedImmune entered into a patent license agreement with Genentech. MedImmune agreed to pay royalties on sales of products covered by the claims of issued patents "which have neither expired nor been held invalid by a court."[4] The license covered an issued patent (Cabilly I) and a then-pending patent application (Cabilly II). Shortly after the Cabilly II patent issued, Genentech expressed its expectation that MedImmune would begin making royalty payments for sales of Synagis, which Genentech believed was covered by the claims of the Cabilly II patent. MedImmune disagreed, believing the Cabilly II patent invalid, unenforceable, and not infringed. MedImmune was reluctant, however, to risk the consequences of breaching the license, which could include an infringement suit by Genentech seeking enhanced damages and an injunction on sales of Synagis, which accounted for more than 80 percent of MedImmune's revenue. Therefore, MedImmune paid royalties under protest, with reservation of all its rights, and filed an action seeking, *inter alia,* a declaration that the Cabilly II patent was invalid, unenforceable, and not infringed by Synagis.

The Lower Courts

While MedImmune's declaratory judgment action was pending, the Federal Circuit decided **Gen-Probe,** vacating a declaration of invalidity and noninfringement of a licensed patent for lack of subject matter jurisdiction. The Federal Circuit held that licensee Gen-Probe failed to establish a reasonable apprehension of an infringement suit because it was in good standing under its license from the patentee.[5]

Relying upon this precedent, Genentech moved to dismiss MedImmune's complaint for lack of subject matter jurisdiction. The district court, although expressing "serious misgivings" about the **Gen-Probe** decision, granted Genentech's motion. MedImmune appealed, factually distinguishing the **Gen-Probe** decision based, in part, upon the inherent uncertainty in licensing patents that have not yet issued.[6] MedImmune further argued that "the **Gen-Probe** decision improperly resurrected the licensee estoppel that was abolished in **Lear v. Adkins,** and should be overturned."[7] Relying upon **Gen-Probe,** the Federal Circuit affirmed the dismissal, noting that MedImmune, like Gen-Probe (and unlike the licensee in **Lear**), "assiduously avoided" breaching its license and restating the policy reasons underlying both decisions:

> The court in **Gen-Probe** discussed the inequity when the patent owner, having contracted away its right to sue, is in continuing risk of attack on the patent whenever the licensee chooses—for example, if the product achieves commercial success—while the licensee can preserve its license and royalty rate if the attack fails. This imbalance distorts the equalizing principles that underlie the Declaratory Judgment Act[8]

The Supreme Court Opinion

Justice Scalia's opinion begins with an acknowledgement that despite more than 60 years of Declaratory Judgment Act jurisprudence, Supreme Court opinions "do not draw the brightest of lines between those declaratory-judgment actions that satisfy the case-or-controversy requirement and those that do not."[9] One of the earliest cases stated merely that the dispute must be "'definite and concrete, touching the legal relations of parties having adverse legal interests.' "[10] A few years later, the Court offered a different, albeit less concise, statement: "'Basically, the question in each case is whether the facts alleged, under all the circumstances, show that there is a substantial controversy, between parties having adverse legal interests, of sufficient immediacy and reality to warrant the issuance of a declaratory judgment.' "[11]

Applying these principles and relying primarily upon the Court's opinion in **Altvater v. Freeman,**[12] the Court held that declaratory judgment jurisdiction existed notwithstanding the fact that MedImmune's own actions, i.e., refusing to breach the license, "eliminate[d] the imminent threat of harm."[13] In **Altvater,** the Court allowed a licensee to proceed with a claim for declaratory judgment of patent invalidity while paying, under protest, royalties pursuant to an injunction issued in earlier litigation. The Federal Circuit distinguished **Altvater** in its **Gen-Probe** decision because royalty payments were made under compulsion of government injunction, not pursuant to an agreement between private parties.[14] However, in discussing the consequence of failing to pay royalties, the **Altvater** opinion references no governmental sanctions, only "actual [and] treble damages in infringement suits" by the patentees.[15] The distinction by the Federal Circuit, therefore, was not dispositive. Like the licensee in **Altvater,** MedImmune alleged facts that, under all the circumstances, showed a substantial and immediate controversy sufficient to establish declaratory judgment jurisdiction.

The **MedImmune** Court expressly based its holding on the parties' contractual dispute, declining to extend its holding in **Lear**:

> [In **Lear,**] we rejected the argument that a repudiating licensee must comply with its contract and pay royalties until its claim is vindicated in court. We express no opinion on whether a *nonrepudiating licensee* is similarly relieved of its contract obligation during a successful challenge to a patent's validity-that is, on the applicability of licensee estoppel under these circumstances. All we need determine is whether petitioner has alleged a contractual dispute. It has done so.[16]

Analyzing the license, the Court found no "prohibition [in the license] against challenging the validity of the patents."[17] Therefore, jurisdiction exists for MedImmune's claim that "the contract, properly interpreted, does not prevent it from challenging the patents, and does not require the payment of royalties because the patents do not cover its products and are invalid."[18]

Implications of MedImmune

While the **MedImmune** opinion represents a departure from the "pragmatic"[19] two-part test employed by the Federal Circuit for determining declaratory judgment jurisdiction, it is not a momentous shift. It is a re-affirmation, acknowledged in **Gen-Probe,** of "the inherently fact-specific nature of the question of jurisdiction":

> The difference between an abstract question and a 'controversy' contemplated by the Declaratory Judgment Act is necessarily one of degree, and it would be difficult, if it would be possible, to fashion a precise test for determining in every case whether there is such a controversy.[20]

Whether you are a licensee or licensor (or, more common, both) of patents, you should be cognizant of facts before, during, and after negotiating a patent license that could affect this jurisdictional question. Use the negotiation process to clearly define if, or under what circumstances, a licensee may challenge a patent, and what the

consequences of such a challenge are. Below are some points to consider in light of the **MedImmune** decision.

For Licensees

♦Expressly preserve the ability to challenge the validity, enforceability, claim interpretation, and ownership of patents.

♦If you believe raising the issue expressly will reduce the likelihood of a license or result in onerous terms, address the strategy of relying upon the **MedImmune** decision and finding equitable reasons why jurisdiction should be found for challenging patents.

♦Agree to pay royalties only on products that fall within the scope of properly interpreted, valid, and enforceable claims. This presumes the ability to cease paying royalties for altered products, or when newly discovered prior art merits a narrower claim scope, or invalidity.

For Licensors

♦Prohibit licensees from challenging validity, enforceability, or claim construction of licensed patents. These provisions should be clearly tied to the consideration provided in exchange for the prohibitions.

♦Prohibit or restrict other challenges to a patent; i.e., the sufficiency of the specification or proper inventorship. These provisions should also be clearly tied to consideration.

♦If the license permits any such challenges to the patent, narrowly define the circumstances under which they are permitted and require continuing compliance with all other terms, such as paying royalties, making reports, and marking products.

♦If possible, define circumstances under which the licensee waives or is estopped from challenging the patents; e.g., after enjoying the benefits of the license for a certain period of time, or paying a cumulative amount of royalties, or introducing another patented product, or the patent is successfully asserted against a third party.

♦Consider carefully how you notify licensees of newly issued patents that you believe create additional royalties or obligations.

♦Preserve the ability to terminate the license, and sue for infringement and pursue all remedies, if the licensee challenges the patent (or foreign counterparts) for any reason.

♦Consider licensing patents in a bundle to minimize the incentive to challenge a single patent.

For Both Licensees and Licensors

♦For cross licenses, consider bundling the patents and making the challenge provisions mutual to minimize risk.

Unresolved Issues

♦How will the Federal Circuit modify its declaratory judgment test? The Supreme Court held that as far as Article III jurisdiction was concerned, MedImmune was not required to break or terminate its license agreement before seeking a declaratory judgment attacking the underlying patent. **MedImmune,** 127 S. Ct. at 777. It also remanded the case for the lower courts to consider the policy arguments on whether they should affirm the dismissal or sustain jurisdiction on discretionary grounds. *Id.*

♦What impact will the **MedImmune** decision have on other attempts to exercise declaratory judgment jurisdiction? Should a potential infringer/licensee now be permitted to challenge a patent if it is merely offered a license without being accused of infringement? Or if the patent is merely called to its attention? Or if the patent owner initiates litigation against a third party? Or against the licensee in a foreign country but not in the United States?

The best approach now, due to the expanded uncertainty, is to clearly define in license agreements the conditions under which the licensed patents (or other rights) may or may not be challenged. ❒

MCCOY, TAULBEE AND O'BRIEN ARE ATTORNEYS AT ALSTON & BIRD, LLP.

Endnotes

1. 127 S. Ct. 764 (2007).

2. 359 F.3d 1376, 1381 (2004), *pet'n for cert. dismissed,* 125 S. Ct. 351 (2004).

3. Established Federal Circuit precedent, based upon the landmark decision in **Lear, Inc. v. Adkins,** 395 U.S. 653, 673 (1969), abolishing the doctrine of licensee estoppel, has required licensees to first breach their license before challenging the validity and enforceability of licensed patents. *See, e.g.,* **Studiengesellschaft Kohle, M.B H. v. Shell Oil Co.,** 112 F.3d 1561, 1568 (Fed. Cir. 1997) ("[A] licensee . . . cannot invoke the protection of the **Lear** doctrine until it (i) actually ceases payment of royalties, and (ii) provides notice to the licensor that the reason for ceasing payment of royalties is because it has deemed the relevant claims to be invalid.").

4. **MedImmune,** 127 S. Ct. at 768.

5. Another requirement under the Federal Circuit test for declaratory judgment jurisdiction is " 'present activity which could constitute infringement or concrete steps taken with the intent to conduct such activity.' " **Gen-Probe,** 359 F.3d at 1380.

6. *See* **MedImmune, Inc. v. Genentech, Inc.,** 427 F.3d 958, 963 (Fed. Cir. 2005) ("MedImmune also distinguishes its situation from that in **Gen-Probe** on the ground that the licensee in **Gen-Probe** negotiated for a license and then filed suit to invalidate the licensed patent, having secured its right to operate and the royalty terms should it lose the suit; MedImmune points out that it already had a license to Cabilly II under its license to Cabilly I and that the royalty rate was already set.").

7. **MedImmune,** 427 F.3d at 963.

8. *Id.* at 964.

9. **MedImmune, Inc. v. Genentech, Inc,** 127 S. Ct. 764, 771 (2007).

10. *Id.* (quoting **Aetna Life Ins. Co. v. Haworth,** 300 U.S. 227, 240-41 (1937)).

11. *Id.* (quoting **Md. Cas. Co. v. Pac. Coal & Oil Co.,** 312 U.S. 270, 273 (1941)).

12. 319 U.S. 359 (1943).

13. **MedImmune,** 127 S. Ct. at 772.

14. Where a government threatens imminent harm, established precedent holds that declaratory judgment jurisdiction exists even if the plaintiff refuses to act in a manner that places him in "imminent threat of prosecution." **MedImmune,** 127 S. Ct. at 772-773 (citing, *inter alia,* **Steffel v. Thompson,** 415 U.S. 452 (1974)) (holding declaratory judgment jurisdiction existed to challenge law prohibiting distribution of handbills without any violation of law).

15. **MedImmune,** 127 S. Ct. at 774.

16. *Id.* at 769-770 (emphasis original) (citations omitted).

17. *Id.* at 776.

18. *Id.*

19. *See* **MedImmune,** 427 F.3d at 964 ("This synthesis of the totality-of-the-circumstances test for determining whether there is a justiciable controversy is pragmatically useful."); **Gen-Probe,** 359 F.3d at 1380 ("this court has developed a pragmatic inquiry").

20. **Gen-Probe,** 359 F.3d at 1379-80 (quoting **Md. Cas.,** 312 U.S. at 273). For example, the timing of a licensee's patent challenge could be critical. Gen-Probe licensed an issued patent and almost immediately challenged its validity. After the Federal Circuit affirmed the dismissal of Gen-Probe's claims for lack of subject matter jurisdiction, the Supreme Court dismissed Gen-Probe's petition for certiorari. In contrast, MedImmune licensed a pending application that issued years later and the Supreme Court sustained jurisdiction. Underlying facts and the terms of the license will likely strongly influence a court evaluating jurisdiction.

Open Source

Taking Advantage of an Opportunity

By Tony Filomena

Open Source software has grown from a few "hackers" in the 1980s trying to prevent corporations from taking away a user's freedom to examine and improve software, into a multibillion dollar industry supported by many of the leading technology companies throughout the world. Along with this growth, open source has expanded beyond software and has generated numerous open source licenses with varying terms and conditions.

The Linux operating system and associated applications are one example of open source software. At the Linux World Open Solutions Summit in February 2007, the International Data Corporation told attendees that the Linux market would grow from $18 billion today to $40 billion by 2010. *See* "IDC: Linux Ecosystem Worth $40 Billion by 2010" by Sean Michael Kerner.

Many of the corporations whom open source advocates were fighting against in the 1980s are now on their side. On Jan. 22, 2007, the two leading consortia dedicated to the advancement of Linux—the Open Source Development Labs (OSDL) and the Free Standards Group (FSG)—merged to form The Linux Foundation. The Linux Foundation strives to accelerate the growth of Linux with a comprehensive set of services to compete effectively with closed platforms. The founding platinum members of The Linux Foundation include IBM, Intel, Oracle, Fujitsu, Hitachi, HP, NEC and Novell. The members of The Linux Foundation include every major company in the Linux industry, including Red Hat, as well as numerous community groups, universities and industry end users. *See* "New Linux Foundation Launches," *www.linux-foundation.org/wordpress/?p=286.*

Open source has also been adopted by high-tech government agencies. When the European Space Agency decided to license a microprocessor core, they chose to use the Lesser General Public License (LGPL), an open source license created by the Free Software Foundation (FSF). The National Aeronautics and Space Administration (NASA) has developed their own open source license, the NASA Open Source Agreement, with the following rationale: "To accelerate NASA software development and improve the quality via community peer review." *See opensource.gsfc.nasa.gov/.*

The open source philosophy of freedom has now spread to cover much more than software. Open source licenses are used for integrated circuit (IC) architectures and blocks, application programming interfaces, hardware protocols, and documentation, among other things. For example, the popular free Internet encyclopedia, Wikipedia, makes its content available under the GNU Free Documentation License, another license developed by the FSF. The FSF, discussed below, is one of the initial catalysts that led to open source.

Brief History of Open Source

In order to understand the terms of many of the open source licenses, it is helpful to look at the history of open source software and understand the motivation for its inception. In the 1970s, computers were primarily about the hardware, and software was a relatively unimportant peripheral. In fact, the source code for computers and computer equipment was routinely provided to the customer with the purchase of the hardware. IBM was so uninterested in software that it let a little start-up named Microsoft maintain ownership of the operating system software for their new IBM personal computers. Thus, at that time, most software was open source or public domain software with few, if any, restrictions on copying, modifying and redistributing.

In this same timeframe, the MIT Artificial Intelligence Laboratories had a central printer that periodically jammed. When the central printer jammed, often no one was aware to clear the jam until they went to retrieve their printout, and by then a large backlog of print jobs had built up. When the jam was discovered and remedied, the users had to wait while the backlog of print jobs cleared until their print job was finally output. An innovative programmer named Richard Stallman started working at the MIT Artificial Intelligence Laboratories in 1971. He took the freely available source code for the central printer and wrote a jam notification module that would send a message to users whenever a printer jam was detected. This enabled the printer jams to be remedied much faster and eliminated the large backlog of print jobs when a jam occurred.

In the early 1980s, the MIT Artificial Intelligence Laboratories bought a new central printer. Since the jam notification module worked so well in the past, Stallman wanted to add it to the software for the new printer. However, the software for the new printer was proprietary—the source code was unavailable and Stallman was unable to install his jam notification module. Stallman felt this was unethical and that something had to be done to preserve a user's freedom to examine, modify and improve software and share the improved software with others.

In 1984, Stallman quit the MIT Artificial Intelligence Laboratories, founded the Free Software Foundation and started writing the GNU ("GNU Not Unix") software system. After several years of developing components for the GNU system, there was still a critical part missing, namely the operating system kernel. In 1991, a University of Helsinki (Finland) graduate student named Linus Torvalds created a kernel as part of his master's thesis. Also, in the early 1990s the Internet was becoming widely used and enabled global collaboration of software developers. Torvalds posted the source code for his new kernel on the Internet, and he received modifications and enhancements from other users all over the world. When Stallman heard of this new operating system kernel, he and Torvalds decided to make it part of the GNU software system. *See* "The GNU Project" by Richard Stallman, *www.gnu.org/gnu/the-gnu-project.html.*

While writing the various components of the GNU system, Stallman was also experimenting with software licenses. In February of 1989, he released the GNU General Public License (GPL) version 1 for his software. The GNU/Linux system is actually "free software," licensed under the GNU GPL. Free software is a subset of open source software licensed under the GPL and LGPL before the term "open source" was coined.

As stated by the Free Software Foundation:

> "Free software" is a matter of liberty, not price. To understand the concept, you should think of "free" as in "free speech," not as in "free beer."

Stallman's philosophy with the Free Software Foundation (FSF) is that users should have the freedom to run, copy, examine, improve and distribute the software, and this freedom should be protected. More precisely, the FSF espouses four freedoms for the users of the software:

♦The freedom to run the program, for any purpose.

♦The freedom to study how the program works, and adapt it to your needs.

♦The freedom to redistribute copies so you can help your neighbor.

♦The freedom to improve the program, and release your improvements to the public, so that the whole community benefits.

The second and fourth freedoms require that the user has access to the source code for the software. *See www.gnu.org/philosophy/free-sw.html.*

The goal of giving users these freedoms required the establishment of license terms that would prevent the software from being modified and made proprietary by the entity making the modifications. The method used was "Copyleft" (described below) and the resulting license is the GNU General Public License.

Open source came along in 1998 when Netscape announced that they were going to release the source code for their internet browser software, Netscape Navigator. Many people found the term "Free Software" confusing because they associated "free" with "no cost" as opposed to "freedom." The group decided to use the term Open Source Software referring to the availability of the source code for the software. The Open Source definition includes 10 criteria including:

♦Free redistribution of the software.

♦Access to the source code.

♦Allow modifications and derivative works.

♦Distribution of the license with the source code.

See "The Open Source Definition," *www.opensource.org/docs/definition.php.* Thus, Free Software fits within the definition of Open Source Software, but the converse is not always true.

Open Source Licensing

The Open Source Initiative (OSI) is a non-profit corporation dedicated to managing and promoting the proliferation of open source licenses and software. As of the writing of this article, the OSI Web site (*www.opensource.org/licenses/*) lists 58 approved open source licenses, including of course GNU GPL and GNU LGPL.

Open source software can be found in several repositories on the Internet. Many of these are sites that are dedicated to development of specific open source projects with project leaders that coordinate the efforts of a global team of software developers collaborating to complete and enhance their projects. One such site is Sourceforge.net which currently lists 83,820 open source projects in various technology areas, such as communications, hardware, database, multimedia, networking and security. Of the projects on Sourceforge.net, 68% are licensed under the GPL, 12% under the LGPL and 8% under the BSD license. Thus, even with the many open source licenses being used, a majority of the open source software is licensed under the FSF licenses: GPL and LGPL.

Open source licenses are sometimes thought to avoid or violate intellectual property laws. However, open source licenses actually depend on intellectual property law, primarily copyright law. When an original work of authorship is created and fixed in a tangible medium of expression, whether the work is software or some other literary or artistic work, the author automatically receives copyright rights in the work. These copyright rights include the right to copy, distribute and modify (make derivative works of) the work. Thus, the author can stop others from copying, modifying or distributing the work without the author's permission. The author's permission can be given with accompanying terms and conditions in a license agreement. Open source licenses are such license agreements in which the terms and conditions require the user to abide by the open source philosophy.

The GNU GPL uses a technique that has come to be known as "copyleft" to enforce the FSF philosophy. Copyleft is a general method for making a program or other work open source, and requiring all modified and extended versions of the program to also be made free software or open source software. The FSF explains it as follows:

> To copyleft a program, we first state that it is copyrighted; then we add distribution terms, which are a legal instrument that gives everyone the rights to use, modify, and redistribute the program's code or any program derived from it but only if the distribution terms are unchanged. Thus, the code and the freedoms become legally inseparable.
>
> Proprietary software developers use copyright to take away the users' freedom; we use copyright to guarantee their freedom. That's why we reverse the name, changing "copyright" into "copyleft."

See www.gnu.org/copyleft/copyleft.html.

Open source licenses are distributed with the source code for a software program and are required to be distributed with modified or unmodified versions of the source code. They are attached or referenced in the source code by the licensor, and are not signed by the licensee to show acceptance. The potential licensee has the option of either accepting the license or not using the software. In this regard, open source licenses have similarity to click-wrap or browser-wrap licenses. The GPL (Section 5) and LGPL (Section 9) open source licenses put it this way:

> You are not required to accept this License, since you have not signed it. However, nothing else grants you permission to modify or distribute the Program or its derivative works. These actions are prohibited by law if you do not accept this License. Therefore, by modifying or distributing the Program (or any work based on the Program), you indicate your acceptance of this License to do so, and all its terms and conditions for copying, distributing or modifying the Program or works based on it.

Some Popular Open Source Licenses

Open source licenses vary significantly and more variations arise continuously. The FSF is currently creating version 3.0 of the GPL, and drafts of this new license are available for review and comment. *See gplv3.fsf.org/.* Though GPL and LGPL are used to license a large portion of open source software, a significant number of other open source licenses are being used. The OSI Web site lists 56 other approved open source licenses and, in evaluating the impacts of open source licenses for several clients, many additional open source licenses have been encountered. Some of the open source licenses are fairly benign, while others are categorized as "viral" and can jeopardize other proprietary intellectual property rights in a distribution.

The GPL license is often called viral due to the copyleft aspect. In many cases, when a distribution is made that includes GPL software, modified or unmodified, as well as proprietary software, the GPL license will require the source code be made available for both the GPL software and the proprietary software. Thus, the proprietary software becomes infected by the GPL software and also must be made available under the GPL license. This is often not acceptable for the owner of the intellectual property rights in the proprietary software. There are other open source licenses that have similar copyleft provisions. In addition, in some cases the GPL can impact patent rights of the software distributor, requiring they make any patent rights covering the distributed software available royalty-free to direct and indirect recipients of their software.

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The LGPL license has a lesser impact on intellectual property rights, but is not completely benign. With LGPL, in many cases where an executable includes both LGPL and proprietary software, the source code for the LGPL software and the object code for the proprietary software must be made available. This allows the user to examine and modify the LGPL software and then re-link with the object code for the proprietary software to create a new executable. The LGPL also requires that the customer be allowed to reverse engineer the proprietary object code for debugging such modifications. This allows a user to overcome the issue Stallman faced with the new printer at the MIT Artificial Intelligence Laboratories: inserting the jam notification module. The LGPL does limit use of the modified code to the customer's own use. In some cases, even making the object code available for proprietary software may be deemed unacceptable.

Some other popular open source licenses, such as the BSD License, MIT License and Apache License v1.1, are fairly benign. They include copyright notice and disclaimer of warranty requirements, as well as some other requirements, but no copyleft or other requirements that affect proprietary code distributed with the open source code, and no restrictions regarding license fees or patents. However, beware of the Apache License v2.0; it is completely different from the Apache License v1.1. The Apache License v2.0 includes a royalty-free patent clause and other clauses that may not be acceptable to an owner of intellectual property rights.

Another popular open source license is the Mozilla Public License (MPL) which was used to license the open source version of Netscape Navigator. The MPL has royalty-free copyright and patent license clauses, and also puts a continuing obligation on contributors to insert legal notices in the software and make representations regarding possible infringement risks. Thus, the MPL and similar open source licenses (such as Free Image Public License) not only can impact intellectual property rights, but can create unwanted potential liability for a developer or contributor to the software.

Thus, different open source licenses have widely varying implications. Even for a particular open source license, the impact can vary significantly depending on the use of the open source with the proprietary portions of the development. Therefore, the impact of open source on a project should be reviewed on a case-by-case basis.

Enforcement of Open Source Licenses

Sometimes, an obstacle to enforcement of open source licenses is trying to determine the author or owner of the open source work. A copyright action can only be brought by the owner of the copyright rights. Since many open source projects are the result of large collaborations, it is often hard to determine the owner of the copyright. However, this is not the case for the GNU/Linux kernel and other open source projects in which the collaboration is moderated and controlled.

One group that has a history of enforcing open source licenses for their software is a group led by Harald Welte that wrote and maintains a software project, netfilters/iptables, that provides network security firewall software for the GNU/Linux kernel systems. This software is widely used in routers and is licensed under the GNU GPL. This group is based in Germany, and started bringing court actions in Germany to enforce the GPL license against router manufacturers that would not distribute the source code for the router software that incorporated their security software. The German courts found the GNU GPL valid and enforceable and ordered several router manufacturers to make their router software available or discontinue distributing their routers with the netfilters/iptables security software. Welte also founded a Web site, *www.gpl-violations.org,* which claims:

> By June 2006, the project has hit the magic "100 cases finished" mark, at an exciting equal "100% legal success" mark. Every GPL infringement that we started to enforce was resolved in a legal success, either in-court or out of court.

In November 2006, the US Court of Appeals for the Seventh Circuit decided a case asking "Does the provision of copyrighted software under the GNU General Public License ("GPL") violate the federal antitrust laws?" **Wallace v. International Business Machines Corp.,** 467 F.3d 1104, 1005 (2006). The court reviewed the relevant portions of the license and found that "The GPL and open-source software have nothing to fear from the antitrust laws." Id. at 1108.

Dealing With Open Source Licenses

Open source presents many advantages and disadvantages when compared to proprietary software. Open source software is usually freely available in source code form. This provides many advantages: no license fees; no need for source code escrow; not being locked into a particular vendor; global audience to identify and fix bugs and make enhancements; make your own customizations and enhancements; and many stable, fully tested modules available. Some of the disadvantages of open source include: no warranties or indemnification; may require giving up intellectual property rights (copyright, patent, trade secret); viral effect of copyleft licenses; enhancements may be available to competitors; end user/distributor may be target of litigation instead of software developer, and no assurance of updates and upgrades.

An organization should develop an open source policy that takes into account the benefits of their proprietary intellectual property rights and the varying impacts of different open source licenses. It is important to educate developers within the organization on this policy and the rationale behind it. The policy should include an open source review process in which developers identify open source they want to use in a project, and the applicable licenses and alternatives. Then business and legal representatives can work with the developers to identify and evaluate the benefits and risks of using the open source, and the benefits and risks of available alternatives. This enables the organization to make informed decisions taking advantage of available open source without unknowingly jeopardizing their intellectual property rights or taking on liability risks.

Both licensors and licensees need to consider the advantages and disadvantages of open source licensing in acquisition, development or distribution of products. As described above, these advantages and disadvantages vary greatly depending on the applicable open source license, and the use of the open source software.

For a licensor of proprietary software, it is advisable to include a clause in its license agreements that prohibit use of its proprietary software with any software that would cause it to become open source. This can protect against, or at least provide a remedy for, a licensee that distributes the licensor's proprietary software along with open source software in such a way that it causes the proprietary software to come under the open source license. This could occur under a copyleft open source license.

On the other side, a licensee needs to consider the impacts when combining licensed software in a commercial product that includes the licensee's valuable intellectual property. If the licensor asserts the software does not contain

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Patent Case Summaries

The summaries below summarize patent-related opinions of interest issued by the Court of Appeals for the Federal Circuit and the Supreme Court during February 2007 to May 2007. These summaries were edited by Robin McGrath and Patrick Elsevier, partners in Alston & Bird's Atlanta office; Christopher Humphrey, a partner in Alston & Bird's Raleigh office; Lance Lawson, Kirk Bradley, partners, and Nick Gallo, an associate, in Alston & Bird's Charlotte office; and Amy Manning, an associate, in Alston & Bird's New York office.

Patent Office Procedures: Reissue: Generally

In re Arnold B. Serenkin, No. 06-1242 (Fed. Cir. (B.P.A.I.) March 6, 2007). Opinion by Lourie, joined by Schall and Gajarsa.

The Federal Circuit affirmed the decision by the U.S. Patent and Trademark Office Board of Patent Appeals and Interferences ("the Board"), which affirmed the examiner's rejection of the claims of Reissue Application No. 10/134,550. In so holding, the Federal Circuit determined that a patent attorney's decision to choose a later filing date during prosecution of an application in exchange for inclusion of missing drawings does not constitute an "error" that is correctable under the reissue statute.

Arnold B. Serenkin ("Serenkin") filed a provisional application in the United States Patent and Trademark Office ("PTO"), the provisional application consisting of five pages and eight figures. Within a year of filing the provisional application, Serenkin, through his counsel, submitted an application to the PTO under the Patent Cooperation Treaty ("the PCT application"). The PCT application claimed priority from the provisional application. Although the PCT application referenced eight pages of drawings, no drawings were filed with the PCT application. Shortly thereafter, but now beyond one year from the filing of the provisional application, the PTO notified Serenkin of the missing drawings and presented Serenkin with the choice of either: (1) submitting the drawings and receiving a new international filing date, thereby losing the priority date of the provisional application, or (2) proceeding without the drawings and retaining the original filing date. Serenkin and his attorney chose to file the drawings and accept a later filing date. Ultimately, the national stage application issued as a U.S. patent without claiming priority to the provisional application.

Several years later, Serenkin, through new counsel, requested reissue of the U.S. patent, seeking to obtain the benefit of the provisional application's filing date. Serenkin asserted that that his attorney simply made the wrong procedural choice during prosecution and that the attorney should have accepted the earlier filing date without the drawings and then added the drawings at some later point, arguing that the drawings would not have introduced new matter. The examiner rejected the reissue application, and the Board sustained the examiner's rejection, holding that the actions of Serenkin's attorney did not constitute an "error" that is correctable under § 251.

On appeal, the Federal Circuit affirmed the Board's decision. Although the Federal Circuit noted that § 251 is "based on equity and fairness, and should be construed liberally," the Federal Circuit also noted that the deliberate action of an inventor or attorney during prosecution generally fails to qualify as a correctable error under § 251. In this case, Serenkin's attorney made a conscious decision to accept the later filing date when presented with the choice by the PTO of either the earlier filing date without the drawings or the later filing date with drawings. The attorney was aware of the consequences of losing the earlier filing at the time of his decision and yet the attorney deliberately took action to accept the later filing date. Thus, the Federal Circuit held that the actions of Serenkin's attorney constituted a deliberate choice and not the type of error that is correctable by reissue. In so holding, the Federal Circuit distinguished other reissue cases where the applicant erroneously failed to perfect priority, stating that "[t]he distinction is between a genuine error, or mistake, and a deliberate, but subsequently found to be disadvantageous, choice." Finally, the Federal Circuit also noted that to allow Serenkin to rely on the reissue statute in order to undo the consequences of his attorney's deliberate choice would undermine the importance of the applicable rules set forth by the U.S. patent laws and the international patent treaties.

http://fedcir.gov/opinions/06-1242.pdf

CHRIS HUMPHREY IS A PARTNER IN THE IP GROUP OF ALSTON & BIRD'S RALEIGH OFFICE.

See **SUMMARIES** *page 10*

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open source, the licensee should require a representation and warranty clause in the license agreement protecting against open source software that would impact the licensee's intellectual property. If it knows the licensed software includes open source, the software license should provide an exhibit identifying each module that includes open source along with its associated open source license, and a description of how the module fits in the software architecture of the licensed software. This enables the licensee to make a knowledgeable assessment of the potential impacts of the licensed software on their intellectual property.

Conclusion

The question is no longer whether or not to use open source, but how to best use open source. Open source has become a multibillion dollar industry supported by many of the leading technology companies throughout the world. Its philosophy has expanded beyond just software, and has generated numerous open source licenses. There are numerous advantages and disadvantages of using open source in a project, and they vary tremendously based on the applicable open source license and on the use of the open source product in the project. The decision to use open source should be made with knowledge of the potential risks and benefits for the organization. ❐

FILOMENA IS A PARTNER IN THE INTELLECTUAL PROPERTY GROUP OF BOSE MCKINNEY & EVANS LLP.

Patentable Invention: Anticipation: Generally The Patent Application: Specification: Enablement Requirement

Liebel-Flarsheim Company, et al. v. Medrad, Inc., Nos. 06-1156, -1157 (Fed. Cir. (S.D. Ohio) March 22, 2007). Opinion by Lourie, joined by Rader and Bryson.

In upholding the District Court's grant of summary judgment of invalidity for lack of enablement, the Federal Circuit held that where the disclosure of one embodiment of the invention would not enable one skilled in the art to make or use the invention as broadly as claimed, the invention is not enabled. The Federal Circuit further held that where the specification teaches away from a claimed aspect of the invention, such a teaching is itself evidence that at least a significant amount of experimentation would have been necessary to practice the claimed invention.

Liebel-Flarsheim Company and Mallinckrodt, Inc. (collectively "Liebel") sued Medrad, Inc. ("Medrad") for infringement of U.S. Patent Nos. 5,456,669 ("the '669 patent"), 5,658,261 ("the '261 patent"), 5,662,612 ("the '612 patent"), and 5,928,197 ("the '197 patent"). The '669 and '261 patents (hereinafter the "front-loading patents") are directed to a front-loading fluid injector with a replaceable syringe capable of withstanding high pressures for delivering a contrast agent to a patient. The '612 and '197 patents (hereinafter the "syringe-sensing patents") are directed to a computer-controlled injector wherein a motor advances and retracts a plunger located within the syringe. During prosecution of the front-loading patents, in order to encompass Medrad's injector within the scope of the claims, applicants specifically deleted all references to a pressure jacket associated with the fluid injector in the asserted claims. As a result, while all described embodiments in the specification of the front-loading patents included a pressure jacket, the claims did not. The District Court concluded that because the claims no longer required a pressure jacket, Medrad's accused devices infringed the asserted claims of the front-loading patents, but that the claims were invalid for lack of enablement, since the specification did not describe a pressure jacketless injector. With respect to the syringe-sensing patents, the District Court held again that Medrad's accused products infringed the asserted claims but that the claims were invalid, this time for lack of compliance with the written description requirement of 35 U.S.C. § 112, and for anticipation by Medrad's U.S. Patent No. 5,383,858 ("the '858 patent").

On appeal, the Federal Circuit upheld the grant of summary judgment of invalidity with respect to all four patents. In upholding the grant of summary judgment with respect to the front-loading patents, the Federal Circuit held that the full scope of the claimed invention requiring enablement included injectors without pressure jackets. Because no reference in the specification described an injector with a disposable syringe without a pressure jacket and, in fact, the specification taught away from such an invention by stating that pressure-jacketless syringes are "impractical," the Federal Circuit held that a significant amount of experimentation would have been necessary to practice the invention and, therefore, the full scope of the claimed invention was not enabled. Further evidence of lack of enablement was found in the inventors' admission of unsuccessful attempts to produce a pressure jacketless system and the absence of any prototype having been made. In upholding the District Court's grant of summary judgment of invalidity with respect to the syringe-sensing patents, the Federal Circuit held that Medrad had met the "especially difficult" burden of showing invalidity based on a prior art reference cited to the United States Patent and Trademark Office during prosecution (i.e., the '858 patent).

http://www.fedcir.gov/opinions/06-1156.pdf

JENNIFER MILLER IS AN ASSOCIATE IN THE IP GROUP OF ALSTON & BIRD'S ATLANTA OFFICE.

Litigation Practice and Procedure: Courts: Subject Matter Jurisdiction Litigation Practice and Procedure: Declaratory Judgment Actions

SanDisk Corporation v. STMicroelectronics NV, et al., No. 05-1300 (Fed. Cir. (N.D. Cal.) March 26, 2007). Opinion by Linn, joined by Dyk. Concurring opinion by Bryson.

Repudiating the "reasonable apprehension of suit" test in light of the Supreme Court's decision in **MedImmune, Inc. v. Genentech, Inc.,** 127 S. Ct. 764 (2007), the Federal Circuit vacated the U.S. District Court for the Northern District of California's dismissal of SanDisk Corporation's ("SanDisk") declaratory judgment action seeking a ruling of noninfringement and invalidity of selected STMicroelectronics NV, et al. ("ST") patents for which ST had offered SanDisk licenses. In so holding, the Federal Circuit ruled that because ST asserted rights under a patent based on certain identified activity by SanDisk and because SanDisk contends that it has the right to engage in the accused activity without license, a controversy arises such that SanDisk need not risk an infringement suit by engaging in the accused activity without seeking a declaration of its legal rights in a declaratory judgment action.

ST engaged SanDisk in license negotiations and presented a thorough infringement analysis detailing that one or more claims of its patents read on one or more of SanDisk's identified products. During the discussions, ST's attorney expressly stated ST had "absolutely no plan whatsoever to sue SanDisk" even though ST's presentation referred directly to SanDisk's present and ongoing infringement of ST's patents and the need for SanDisk to license those patents. Shortly thereafter, SanDisk filed an action seeking a declaratory judgment of noninfringement and invalidity of the ST patents presented in the license negotiations. In response, ST filed a motion to dismiss SanDisk's declaratory judgment claims for lack of subject matter jurisdiction, maintaining that there was no actual case or controversy at the time SanDisk filed its complaint. The District Court granted ST's motion to dismiss, holding that no actual controversy existed.

On appeal, the Federal Circuit held that a substantial controversy arose because ST sought a right to a royalty under its patents based on specific activity by SanDisk and because SanDisk maintained that it could proceed in its activities without the payment of royalties to ST. The Federal Circuit further held that ST's promises not to sue SanDisk did not render SanDisk's declaratory judgment claims moot because ST "engaged in a course of conduct that shows a preparedness and willingness to enforce its patent rights" despite ST's statements to the contrary. Accordingly, the Federal Circuit held that a declaratory judgment action was warranted and should not have been dismissed by the District Court.

In a concurring opinion, Judge Bryson agreed that Supreme Court precedent mandated the Federal Circuit's holding in the present case, but expressed reservations about the potential effects of the opinion. In particular, Judge Bryson noted that as a result of the Federal Circuit's holding, the mere offer of a license by patentees may expose such patentees to a declaratory judgment lawsuit.

http://www.fedcir.gov/opinions/05-1300.pdf

ROBIN MCGRATH IS A PARTNER IN THE IP GROUP OF ALSTON & BIRD'S ATLANTA OFFICE.

Litigation Practice and Procedure: Jurisdiction: Standing Patent Office Procedures: Certificates of Correction Claim Interpretation: Generally

Central Admixture Pharmacy Services, Inc., et al. v. Advanced Cardiac Solutions, P.C., et al., No. 06-1307 (Fed. Cir. (N.D. Ala.) April 3, 2007). Opinion by Gajarsa, joined by Schall and Prost.

The Federal Circuit held that the plaintiffs had standing to bring suit for infringement, despite the inventor's failure to grant a nonexclusive license requested by the United States Government pursuant to the Bayh-Dole Act, 35 U.S.C. §§ 200-212. The Federal Circuit also reversed the District Court's finding that a certificate of correction for the patent-in-suit was valid.

U.S. Patent No. 4,988,515 ("the '515 patent") claims a chemical solution used during heart surgery. The research that led to the '515 patent was conducted under a grant awarded by the National Institutes of Health ("NIH"). The government therefore had certain rights with respect to the patent under the Bayh-Dole Act, 35 U.S.C. §§ 200-212, including the right to a royalty-free nonexclusive license. The NIH agreed to a waiver of its patent rights on the condition that the inventor grant to the NIH a nonexclusive, royalty-free license to use the invention. During the course of litigation, the inventor admitted his failure to grant the license requested by the NIH, and the defendant argued that as a result the plaintiffs lacked standing because this failure voided the NIH's waiver. The Federal Circuit, however, held that a Bayh-Dole violation grants the government discretionary authority to take title, and that the government must take an affirmative action to establish its title and invoke forfeiture. Because the NIH showed no interest in pursuing the matter, the Federal Circuit held that the inventor retained title to the patent.

After the '515 patent issued, the assignee of the '515 patent applied for a certificate of correction pursuant to 35 U.S.C. § 255 to replace all instances of the word "osmolarity" in the patent with the word "osmolality." The Federal Circuit first held that invalidating a certificate of correction based on impermissible broadening requires proof of two elements: (1) that the corrected claims are broader than the original claims, and (2) that the presence of the clerical or typographical error, or how to correct that error, is not clearly evident to one of skill in the art. After noting that the first inquiry is a question of law, the Federal Circuit held that the claims were broadened by the certificate of correction, because the corrected claims cover less-concentrated solutions, which would not have been covered under the original claims. Second, because the word "osmolarity" was spelled correctly and read logically in the context of the claim, the Federal Circuit held that as a factual matter the presence of the error was not evident to one of skill in the art. The Federal Circuit therefore reversed the District Court's finding that the certificate of correction was valid and vacated the District Court's judgment of infringement.

The Federal Circuit also addressed the District Court's construction of the claim phrase "osmolality . . . of between about 400-500 mOsmol" to allow for an osmolality between 385-515 mOsmol/kg. Because that phrase is not validly part of the claims, the Federal Circuit ruled that the District Court's construction of the phrase could not stand. "However," the Federal Circuit stated, "the correct construction of the originally issued claims is basically the same, except for the substitution of units: 'osmolarity . . . of between about 400-500 mOsmol' encompasses osmolarities as low as 385 mOsmol/L."

Finally, the Federal Circuit (1) ruled that the defendants did not properly plead inequitable conduct and could not amend its answer to do so, (2) rejected the defendants' invalidity arguments and ruled that the defendants failed to preserve other invalidity arguments, and (3) affirmed summary judgment for the patentee on the defendants' counterclaims for false marking and false advertisement.

http://www.fedcir.gov/opinions/06-1307.pdf

BEN PLEUNE IS AN ASSOCIATE IN THE IP GROUP OF ALSTON & BIRD'S CHARLOTTE OFFICE.

Claim Interpretation: Intrinsic Evidence: Preferred Embodiments Infringement: Willful Infringement Remedies: Injunctions: Permanent Injunction

Acumed LLC v. Stryker Corporation, et al., Nos. 06-1260, -1437 (Fed. Cir. (D. Ore.) April 12, 2007). Opinion by Gajarsa, joined by Linn. Dissenting opinion by Moore.

The Federal Circuit affirmed the U.S. District Court for the District of Oregon's claim construction and further affirmed the District Court's finding of willfulness despite the existence of a noninfringement opinion of counsel because the defendant ignored the noninfringement opinion letter. Vacating the District Court's grant of a permanent injunction, the Federal Circuit held that the Supreme Court's recent opinion in **eBay v. MercExchange** requires applying a traditional four-factor test when considering a request for a permanent injunction in a patent infringement case.

Acumed LLC ("Acumed") is the assignee of U.S. Patent No. 5,472,444 ("the '444 patent"), which is directed to an orthopedic nail device. Acumed filed suit against Stryker Corporation, Stryker Sales Corporation, Stryker Orthopaedics, and Howmedica Osteonics Corp. (collectively "Stryker") after Stryker began selling its accused orthopedic nail device in April 2004. After the District Court conducted a claim construction hearing, a jury found that Stryker's device literally infringed the asserted claims and that Stryker's infringement was willful. The District Court then permanently enjoined Stryker from selling its device in the U.S. Stryker appealed the infringement and willfulness verdict, as well as the injunction.

Stryker argued on appeal that certain claim terms were improperly construed by the District Court. Specifically, Stryker argued that the District Court construed the terms "curved shank" and "transverse holes" too broadly. Additionally, Stryker argued that its product did not fall within the District Court's definition of the claim term "angularly offset."

With respect to the term "curved shank," the Federal Circuit agreed with the District Court's reliance on the ordinary meaning of the term as "a shank that has a bend or deviation from a straight line without sharp corners or sharp angles" and noted that "[i]n some cases, the ordinary meaning of claim language as understood by a person of skill in the art may be readily apparent even to lay judges, and claim construction in such cases involves little more than the application of the widely accepted meaning of commonly understood words." In rejecting Stryker's argument for a narrower construction of the term, the Federal Circuit noted Stryker's interpretation impermissibly attempted to import a feature from the preferred embodiment into the claims. As additional support for the claim interpretation, the Federal Circuit noted that a dependent claim included the

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narrowing limitation sought to be introduced by Stryker, thereby "rais[ing] a presumption that the limitation in question is not found in the independent claim."

With regard to the claim language "transverse holes," Stryker argued that because each figure and description showed and described a hole that was perpendicular to the nail shaft, the claim language should be read accordingly. The Federal Circuit disagreed, noting that the figures and description of the '444 patent merely represented a single, preferred embodiment of the invention, and that intrinsic evidence suggested that although the patentee knew how to restrict the claim language to include perpendicularity, "they chose a different term with a broader scope."

Stryker also argued that its device did not fall within the District Court's definition of the claim term "angularly offset" (referring to the hole axes of the device). However, the Federal Circuit agreed with the District Court, noting that Stryker's own supporting diagram showed hole axes that formed skew lines intersecting each other when viewed in two dimensions, an essential part of the definition given the term by the District Court.

Regarding the jury's verdict of willfulness, the Federal Circuit stated that "[f]avorable opinions of counsel normally present a well-grounded defense to willfulness, but the protection they afford is not absolute." Although Stryker cited a favorable noninfringement opinion letter, the Federal Circuit noted that willfulness is a matter of degree. "Whether an infringer ignored the opinion of counsel is, as part of the willfulness inquiry, also a question of degree. Evidence of the extent of that ignorance should be weighed by the factfinder together with the totality of the other circumstances surrounding the infringer's culpability." Holding that Stryker was a willful infringer of the '444 patent despite the favorable opinion letter, the Federal Circuit noted that, prior to the issuance of the letter, two patent attorneys had discouraged Stryker from selling its device citing concern that Stryker's device might infringe the '444 patent, that Stryker had filed its FDA application before it received the favorable opinion, and that there was evidence that tended to show that Stryker copied the Acumed device.

With regard to the trial court's ruling in favor of a permanent injunction, the Federal Circuit noted that the Supreme Court in **eBay Inc. v. MercExchange, LLC,** 126 S. Ct. 1837 (2006) had since struck down the general rule—applied by the District Court—that a permanent injunction will issue after a finding of infringement, thus "making clear that the traditional four-factor test for injunctions applies to patent cases." As a result, the Court of Appeals vacated the permanent injunction and remanded the issue to the District Court for consideration in light of the four-factor test.

Judge Moore dissented to the majority's holding that the District Court properly construed the term "transverse holes." Judge Moore argued that both intrinsic and extrinsic evidence showed that the patentee's use of "transverse" warranted the narrower "perpendicular" limitation rejected by the District Court, noting that "there is not a single non-perpendicular, 'transverse' hole shown or described in the patent," nor is the adopted definition consistent with a common understanding in the field and the patentee's previous use of the term.

http://www.fedcir.gov/opinions/06-1260.pdf

FLYNT STREAN IS AN ASSOCIATE IN THE IP GROUP OF ALSTON & BIRD'S CHARLOTTE OFFICE.

Claim Interpretation: Generally
Claim Interpretation: Intrinsic Evidence: Generally
Litigation Practice and Procedure: Procedure: Rule 11

Intamin, Ltd. v. Magnetar Technologies, Corp., Nos. 05-1546, -1579 (Fed. Cir. (C.D. Cal.) April 18, 2007). Opinion by Rader, joined by Plager and Prost.

The Federal Circuit vacated and remanded part of the U.S. District Court for the Central District of California's claim construction of the term "intermediary" as used in the claims of U.S. Patent No. 6,062,350 ("the '350 patent") owned by Intamin, Ltd. ("Intamin") and affirmed the District Court's decision to vacate Rule 11 sanctions against Intamin.

Intamin asserted the claims of the '350 patent against Magnetar Technologies, Corp. ("Magnetar"), which are directed to a magnetic braking system for amusement park rides. In particular, Claim 1 of the '350 patent recites an eddy current brake assembly that includes (1) a conducting part that has at least one conductive rail, (2) a plurality of magnet elements mounted on carrying rails with alternating polarities, and (3) an intermediary disposed between adjacent pairs of the plurality of magnet elements. The conductive rail is configured for attachment to a fixed device part and is adapted to extend the length of the fixed device part, and the plurality of magnet elements are arranged such that the poles of magnet elements mounted on one carrying rail have opposite polarities from the poles of magnet elements mounted on a corresponding carrying rail of the pair of carrying rails.

Based on its construction of the terms "intermediary" and "length," the District Court granted Magnetar's motion for summary judgment of noninfringement. In particular, the District Court appeared to construe the term "intermediary" to mean something non-magnetic between the adjacent magnets and "length" to mean the entire length of the fixed device part (e.g., the track). The Federal Circuit vacated the District Court's construction of the term "intermediary" because the District Court appeared to construe the term without considering how "adjacent magnets with alternating polarities" should be interpreted, and "the term 'intermediary' can embrace magnetic substances, albeit only if the additional term requirement of 'alternating polarity' allows for it." Accordingly, the Federal Circuit remanded to allow the District Court "to determine whether the patent limits the term 'adjacent magnets of alternating polarity' to magnets of *opposite* polarity."

In addition, the District Court construed the phrase "conductive rail being adapted to extend the length of the fixed device part" to mean the conductive rail must run the end length of the track to which it is attached. The Federal Circuit affirmed this construction, noting that the "verb 'extend' already suggests that the 'length' reaches from one end to another. Moreover, the term 'length' imparts information about the 'fixed device part,' once again suggesting that the 'length' will encompass the entire dimensions of that structure." Although Intamin argued that this interpretation of "length" would not permit the claim to read on embodiments of the invention mentioned in the specification, the Federal Circuit noted that a claim does not need to cover all embodiments. However, the Federal Circuit remanded to the District Court to consider whether the Magnetar brakes would infringe this limitation based on the doctrine of equivalents.

Furthermore, the Federal Circuit affirmed the District Court's decision to vacate the Rule 11 sanctions even though Intamin did not obtain and physically cut open the metal casing on the magnets in Magnetar's brake system. The Federal Circuit held that its prior decision in **Judin v. United States,** 110 F.3d 780, 784 (Fed. Cir. 1997) did not create a blanket rule that as part of its pre-filing investigation a patentee must obtain

and thoroughly deconstruct a sample of a defendant's product to avoid violating Rule 11. The Federal Circuit explained that in this case the technology presented the patentee with unreasonable obstacles to any effort to obtain a sample of Magnetar's amusement ride brake system, let alone the difficulty of opening the casing. Because Intamin "reviewed publicly available documents on [Magnetar's] brakes, inspected [Magnetar's] brakes as installed on a roller coaster, took photos of the brakes, and reviewed the brakes with experts," the Federal Circuit held that the District Court did not abuse its discretion in determining that Intamin's pre-filing investigation was reasonable under the circumstances.

http://www.fedcir.gov/opinions/05-1546.pdf

MEREDITH STRUBY IS AN ASSOCIATE IN THE IP GROUP OF ALSTON & BIRD'S ATLANTA OFFICE.

Claim Interpretation: Generally
Claim Interpretation: Intrinsic Evidence: Generally
Claim Interpretation: Intrinsic Evidence: Prosecution Disclaimer
Claim Interpretation: Claim Differentiation
Doctrine of Equivalents: Prosecution History Estoppel: By Argument
Infringement: Generally

PODS, Inc. v. Porta Stor, Inc., et al., No. 2006-1504 (Fed. Cir. (M.D. Fla.) April 27, 2007). Opinion by Dyk, joined by Lourie and O'Malley (sitting by designation).

The Federal Circuit reversed a finding of infringement by the U.S. District Court for the Middle District of Florida based on an improper claim construction. In reaching its decision, the Federal Circuit construed the claim term "carrier frame" to have the same meaning in different claims even though one claim did not describe the carrier frame with the same level of structural detail as the others.

This case is an appeal from the order of the U.S. District Court for the Middle District of Florida permanently enjoining Porta Stor, Inc. ("Porta Stor") from infringing U.S. Patent No. 6,071,062 ("the '062 patent") owned by PODS, Inc. ("PODS"). The '062 patent is directed to a method and apparatus for loading a storage container onto a vehicle from the ground. In the District Court, PODS accused a storage device sold by Porta Stor of infringing the '062 patent. The accused product is a three-sided storage container shaped like a "U."

After trial, the District Court entered a directed verdict finding that Porta Stor infringed literally method claim 29 of the '062 patent and infringed claims 1 and 32 under the doctrine of equivalents. The District Court based its ruling on a claim construction that construed the term "carrier frame" differently in claim 29 from its undisputed construction in claims 1 and 32. Apparatus claims 1 and 32 recite a "carrier frame" and then explicitly define such a frame to include four sides. Method claim 29 recited a "carrier frame" but did not define that term more explicitly. At the District Court, PODS argued that because claim 29 did not further define a "carrier frame," unlike claims 1 and 32, the construction of "carrier frame" in claim 29 is broader than claims 1 and 32 and is not limited to a four-sided structure. The District Court agreed and adopted PODS's proposed construction. Porta Stor appealed.

On appeal, the Federal Circuit reversed the District Court and held that the '062 patent was not infringed. The Federal Circuit ruled that the term "carrier frame" should be given the same construction in each of the claims, reasoning that nothing in the specification indicated that the claimed "carrier frame" could be anything other than a four-sided structure. Additionally, the Federal Circuit relied on the patentee's characterization of the carrier frame as a "rectangular-shaped frame" in arguments distinguishing a cited prior art document during prosecution. Accordingly, the Federal Circuit limited "carrier frame" to a rectangular shape as in claims 1 and 32 and consistent with the patentee's arguments during prosecution. The Federal Circuit also applied the doctrine of prosecution history estoppel, based on these arguments, to disallow infringement under the doctrine of equivalents.

http://www.fedcir.gov/opinions/06-1504.pdf

MATT URBANAWIZ IS AN ASSOCIATE IN THE IP GROUP OF ALSTON & BIRD'S ATLANTA OFFICE.

Patentable Invention: Obviousness: Generally
Patentable Invention: Obviousness: Teaching, Suggestion, or Motivation in Prior Art

KSR Int'l Co. v. Teleflex Inc., et al., No. 04-1350, 550 U.S. ___ (2007) (S. Ct. (Fed. Cir.) April 30, 2007) (Unanimous decision). Opinion by Justice Kennedy.

The Supreme Count reversed the Federal Circuit's reversal of a District Court's grant of summary judgment for obviousness and held that the Federal Circuit addressed the obviousness question in a narrow, rigid manner that is inconsistent with § 103 and the Supreme Court's precedent set in **Graham v. John Deere Co.** The Supreme Court was critical of the Federal Circuit's rigid application of the "teaching, suggestion, or motivation" ("TSM") test for evaluating obviousness. With respect to patents claiming a combination of elements in the prior art, the Court particularly noted that if a person of skill in the art can implement a predictable variation, the alleged invention is likely obvious.

Under the facts of the case, the Supreme Court held that the Federal Circuit erred in at least four ways: First, the Federal Circuit erred by holding that courts and patent examiners should look only to the problem the patentee was trying to solve. Under the correct analysis, any need or problem known in the field of endeavor at the time of invention and addressed by the patent can provide a reason for combining the elements in the manner claimed. Second, the Federal Circuit erred in assuming that a person of ordinary skill attempting to solve a problem will be led only to those elements of prior art designed to solve the same problem. Third, the Federal Circuit erred by concluding that a patent claim cannot be proven obvious merely by showing that it was obvious to try. Finally, the Federal Circuit erred by drawing the wrong conclusion from the risk of courts and patent examiners falling prey to hindsight bias.

Teleflex Inc. and its subsidiary Technology Holding Company (collectively "Teleflex") sued KSR International Company ("KSR") for infringement of U.S. Patent No. 6,237,565 ("the '565 patent"). Claim 4 of the '565 patent (the only claim in dispute) described a mechanism for combining an electronic sensor with an adjustable automobile pedal so that the pedal's position can be transmitted to a computer that controls the throttle in the vehicle's engine. In response to Teleflex's accusation of infringement, KSR countered that Claim 4 was invalid under § 103 because its subject matter was obvious. The District Court granted summary judgment in KSR's favor, holding that under applicable summary judgment standards, KSR had overcome the presumption of validity and demonstrated that Claim 4 was obvious in light of the prior art in existence when the claimed subject matter was invented. More particularly, the District Court-following the framework outlined by the Supreme Court in

See **SUMMARIES** *page 14*

Graham—compared the teachings of the prior art with Claim 4 of the '565 patent and found "little difference" between the two. In addition, and in accordance with the controlling cases from the Federal Circuit, the District Court also applied the TSM test and held that KSR satisfied the test, reasoning that the state of the industry would inevitably lead to the combination of electronic sensors and adjustable pedals. Thus, the District Court granted summary judgment of obviousness in favor of KSR.

On appeal, the Federal Circuit reversed, relying principally on the TSM test, ruling that the District Court had not been strict enough in applying the test after failing to make "'finding[s] 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 . . . attach an electronic control to the support bracket of a [prior art] assembly." The Federal Circuit held that the District Court was incorrect that the nature of the problem to be solved satisfied the TSM test because unless the "prior art references addressed the precise problem that the patentee was trying to solve," the problem would not motivate an inventor to look at those references. The Federal Circuit further held that genuine issues of material fact precluded summary judgment, such as the proffered statement from one expert that Claim 4 "was a simple, elegant, and novel combination of features."

The Supreme Court began its analysis by explicitly rejecting the "rigid approach" for evaluating obviousness used by the Federal Circuit. The Supreme Court explained that prior Supreme Court precedent dealing with the question of obviousness set forth an "expansive and flexible approach" inconsistent with the Federal Circuit's application of the TSM test in the current case. The high court noted that neither the enactment of § 103 nor the analysis outlined in **Graham** were meant to disturb the Court's earlier instructions concerning the need for caution in granting a patent based on the combination of elements found in the prior art, particularly where the combination leads to predictable results:

When a work is available in one field of endeavor, design incentives and other market forces can prompt variations of it, either in the same field or a different one. If a person of ordinary skill can implement a predictable variation, §103 likely bars its patentability. For the same reason, if a technique has been used to improve one device, and a person of ordinary skill in the art would recognize that it would improve similar devices in the same way, using the technique is obvious unless its actual application is beyond his or her skill. **Sakraida** and **Anderson's-Black Rock** are illustrative—a court must ask whether the improvement is more than the predictable use of prior art elements according to their established functions.

The Supreme Court noted that application of these principles may be difficult in some cases, but the analysis need not seek out precise teachings regarding the specific subject matter of the claim at issue because a court can "take account of the inferences and creative steps that a person of ordinary skill would employ."

Turning next to the TSM test itself, the Court noted that the test captures a "helpful insight": a patent claim composed of several elements is not proved obvious merely by demonstrating that each element was independently known in the prior art. Instead, it can be important to identify a reason that would have prompted a person of ordinary skill in the art to combine the elements as the new invention does, i.e., a teaching, suggestion, or motivation. The high court instructed, however, that helpful insights need not become rigid and mandatory formulas because diversity of inventive pursuits and of modern technology counsels against such analysis. While there is not a necessary inconsistency between application of the TSM test and the **Graham** analysis, a court errs when it transforms the general principle embodied by the TSM test into a rigid rule limiting the obviousness inquiry. The Supreme Court noted that patent protection requires "real innovation":

Granting patent protection to advances that would occur in the ordinary course without real innovation retards progress and may, in the case of patents combining previously known elements, deprive prior inventions of their value or utility.

Applying this logic to the present case, the Supreme Court held that the Federal Circuit's analysis was flawed for several reasons. First, the Federal Circuit erred by holding that "courts and patent examiners should look only to the problem the patentee was trying to solve." According to the Court, under the correct analysis, "any need or problem known in the field of endeavor at the time of invention and addressed by the patent can provide a reason for combining the elements in the manner claimed." Second, the Federal Circuit erred in its "assumption that a person of ordinary skill attempting to solve a problem will be led only to those elements of prior art designed to solve the same problem" because "common sense teaches . . . that familiar terms may have obvious uses beyond their primary purposes." Third, the Federal Circuit erred by concluding that a patent claim cannot be proven obvious merely by showing that it was obvious to try. Finally, the Federal Circuit erred by drawing the "wrong conclusion from the risk of courts and patent examiners falling prey to hindsight bias." The court noted that "[r]igid preventative rules that deny factfinders recourse to common sense, however, are neither necessary under our case law nor consistent with it."

Applying the standards articulated above, the Supreme Court reversed the Federal Circuit, holding that Claim 4 must be found obvious. In discussing a separate ground the Federal Circuit gave for reversing the order of summary judgment, i.e., the existence of a dispute over an issue of material fact, the Court noted that a **Graham** analysis does not exclude the possibility of summary judgment simply because an "expert provided a conclusory affidavit addressing the question of obviousness." Instead, because the ultimate judgment of obviousness is a legal determination, summary judgment can be granted where the "content of the prior art, the scope of the patent claim, and the level of ordinary skill in the art are not in material dispute, and the obviousness of the claim is apparent in light of these factors."

http://www.supremecourtus.gov/opinions/06pdf/04-1350.pdf

WES ACHEY IS AN ASSOCIATE IN THE IP GROUP OF ALSTON & BIRD'S ATLANTA OFFICE.

Infringement: Contributory and Induced Infringement: Generally

Microsoft Corp. v. A.T.&T. Corp., No. 05-1056, 550 U.S. ____ 2007 (S. Ct. (Fed. Cir.) April 30, 2007). Opinion by Justice Ginsburg, joined by Justices Scalia, Kennedy, and Souter. Concurring opinion by Justice Alito, joined by Justices Thomas and Breyer. Dissenting opinion by Justice Stevens.

Reversing the Federal Circuit, the Supreme Court held that Microsoft's Windows software is not a combinable component for purposes of 35 U.S.C. § 271(f) until the software is expressed as a computer-readable copy and, therefore, Microsoft was not liable under 35 U.S.C. § 271(f) for copies made abroad using software exported by Microsoft on a master disk or by electronic transmission. Microsoft also won because Microsoft did not supply the copies that were actually installed; rather, it supplied the master copy from which copies could be (and were) made and later installed on computers.

Section 271(f)(1) provides that whoever "supplies . . . in or from the United States all or a substantial portion of the components of a patented invention . . . in such manner as to actively induce the combination of such components outside of the United States in a manner that would infringe the patent if such combination occurred within the United States, shall be liable as an infringer." The Federal Circuit held that Microsoft infringed AT&T's patent covering an apparatus for digitally encoding and compressing recorded speech. Microsoft designed and tested its Windows operating software in the United States and then sold the software to computer manufacturers throughout the world. Upon purchase of Windows, Microsoft sent a master version of Windows, on either a CD-ROM or via encrypted electronic transmission, to the manufacturer overseas. The manufacturer then copied Windows onto additional CD-ROMs, installed it in the foreign computers, and subsequently sold the computers abroad. "Neither Windows software (*e.g.,* in a box on the shelf) nor a computer standing alone (i.e., without Windows installed) infringes AT&T's patent," as the patent-in-suit covered an apparatus capable of performing the function enabled by the software. Thus, "[i]nfringement occurs only when Windows is installed on a computer, thereby rendering it capable of performing as the patented speech processor."

The Supreme Court addressed two separate questions regarding the scope of 35 U.S.C. § 271(f). First, the Court considered whether software qualifies as a "component" under § 271(f). Justice Ginsburg, writing for the Court, drew a distinction between software and copies of software. The Court reasoned that software is an abstraction that, until encoded on a medium such as a CD-ROM, cannot be a "component" within the scope of § 271(f). Thus, where the patented invention is a tangible invention, only the tangible CD-ROM containing the software (such as the "golden disk" master copy or a subsequent CD-ROM copy containing the software) is a "component" within the scope of § 271(f). The Court declined to decide whether intangible software may be a "component" if the patented invention is an intangible process or method and whether an intangible method or process qualifies as a patented invention.

Second, the Court considered whether, in the context of § 271(f), the components were "supplie[d] . . . from the United States." The Court concluded that although the master copy sent abroad is identical to the copies that are installed onto the computers, Microsoft did not supply the copies and therefore did not infringe. In drawing this distinction, the Court noted that "the very components supplied from the United States, and not copies thereof, trigger § 271(f) liability when combined abroad to form the patented invention at issue." Accordingly, because the copies of Windows actually installed on the foreign computers were the copies, and thus not supplied from the United States, Microsoft could not be liable for the infringing acts.

The Supreme Court recognized the Federal Circuit's concern that a "loophole" exists for would-be infringers to avoid liability under § 271(f) by making copies of software abroad; however, the Court noted that AT&T's remedy for these extraterritorial infringing acts lies in the enforcement of foreign patents. Moreover, the Court declined to apply the Federal Circuit's policy-based "dynamic judicial interpretation of § 271(f)," and instead left to Congress the question of how, or even whether, to close this loophole.

Justice Alito, with whom Justices Thomas and Breyer joined, concurred with the Court's opinion except with respect to footnote 14. In footnote 14, the Court declined to address whether it would reach the same result as to the second question if no copies were made and the installation was accomplished using the master disk. In the concurrence, Justice Alito addressed this issue and concluded that "[b]ecause no physical object originating in the United States was combined with these computers, there was no violation of § 271(f). Accordingly, it is irrelevant that the Windows software was not copied onto the foreign-made computers directly from the master disk," because the disk never became a physical part of the foreign-made computer.

In the sole dissent, Justice Stevens opined that software could, in fact, be a "component" of a patented invention within the ordinary meaning of that term.

http://www.supremecourtus.gov/opinions/06pdf/05-1056.pdf

ROSS BARTON IS AN ASSOCIATE IN THE IP GROUP OF ALSTON & BIRD'S CHARLOTTE OFFICE.

Claim Interpretation: Generally
Infringement: Literal Infringement
Infringement: Doctrine of Equivalents: Generally

Foremost In Packaging Systems, Inc. v. Cold Chain Technologies, Inc., No. 2006-1582 (Fed. Cir. (C.D. Cal.) May 2, 2007). Opinion by Friedman, joined by Newman and Prost.

In affirming the District Court's grant of summary judgment of noninfringement, the Federal Circuit held that the District Court properly construed the disputed claim terms and correctly concluded that the defendant did not infringe the patent-in-suit.

Foremost In Packaging Systems, Inc. (hereinafter "Foremost") sued Cold Chain Technologies (hereinafter "Cold Chain") alleging infringement of U.S. Patent No. 5,294,302 ("the '302 patent"). The '302 patent is directed to an insulated shipping container designed to carry items such as pharmaceuticals and human tissue, which must be transported at specific temperatures. The containers claimed in the '302 patent consist of an insulated cover and an insulated *body* that include separate areas in which a product and a coolant are placed. These "areas" are described in the patent as "cavities."

The District Court construed the disputed claims of the '302 patent to require that the "cover" be inserted into the cavity of the insulated body. On the basis of this construction, the District Court concluded that there was no infringement—literally or under the doctrine of equivalents—because the product at issue did not have a cover that was inserted into a cavity. Instead, the particular product accused of infringement incorporated a cover that merely covered the opening of, but did not extend into, the coolant cavity.

On appeal, the Federal Circuit affirmed the District Court's grant of summary judgment, holding that the District Court correctly construed the claims and correctly concluded that the products at issue did not infringe the '302 patent—literally or under the doctrine of equivalents. In affirming the District Court's claim construction, the Federal Circuit, like the District Court, relied exclusively on the claim language itself to support its construction. Citing **Depuy Spine, Inc. v. Medtronic Sofamor Danek, Inc.,** 469 F.3d 1005, 1016-20 (Fed. Cir. 2006), the Federal Circuit ruled that under the circumstances, the patentee could not establish infringement under the doctrine of equivalents.

http://www.fedcir.gov/opinions/06-1582.pdf

WES ACHEY IS AN ASSOCIATE IN THE IP GROUP OF ALSTON & BIRD'S ATLANTA OFFICE. ❐

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