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Note from the Editors

The business and law of intellectual property never rest, nor does the IP Quarterly Newsletter, even during the dog days of summer. In this issue of the newsletter, we address five issues of importance to our IP clients:

- **Patent exhaustion** and the ripple effects of the Supreme Court's year-old decision in *Quanta v. LGE*
- An examination of the Federal Circuit's decision in ***In re Kubin*** and its implications for biotechnology inventors
- The evolution of **trademark dilution law** since Congress passed the Federal Trademark Dilution Act in 1995 and the Trademark Dilution Revision Act of 2006
- An explanation of the often opaque processes of **enforcing ITC exclusion orders**
- A thorough analysis of the **estoppel aspect of *inter partes* reexaminations**

Whether you read this issue of the newsletter in your office or while vacationing in some remote corner of the world, we hope you find the articles interesting and helpful to you and your company. ■

Patent Exhaustion and Implied Licenses: Important Recent Developments in the Wake of *Quanta v. LG Electronics*

By Rufus Pichler

A little more than a year ago, the U.S. Supreme Court, in *Quanta Computer, Inc. v. LG Electronics, Inc.*,[1] clarified important questions regarding the application of the patent exhaustion doctrine to system and method patents. In *Quanta*, the Court also rejected the notion that patent exhaustion can be avoided by mere restrictive notices to downstream customers where the sale was otherwise authorized by the patent owner.[2] However, other much-debated issues surrounding the law of patent exhaustion were not expressly addressed by the Court, most notably:

- whether a "covenant not to sue," as opposed to a license, amounts to an authorization to sell for purposes of patent exhaustion;
- whether the "conditional sale" doctrine established by the Federal Circuit in its highly controversial *Mallinckrodt* decision[3] is still viable; and
- the questions raised by the Federal Circuit's *Jazz Photo* decisions[4] regarding the application of the patent exhaustion doctrine to sales occurring outside the U.S.

The Supreme Court's silence on these questions left commentators to speculate whether lower courts would still find some guidance in *Quanta* when confronted with these questions. In three recent decisions the Federal Circuit, the Eastern District of Kentucky, and the Northern District of California have done exactly that in relying on *Quanta* in potentially far-reaching decisions addressing each of the controversial issues noted above.

THE FEDERAL CIRCUIT'S DECISION IN *TRANSCORE*: A COVENANT NOT TO SUE AMOUNTS TO "AUTHORIZATION" FOR PURPOSES OF PATENT EXHAUSTION AND A LICENSE MAY BE IMPLIED "BY VIRTUE OF LEGAL ESTOPPEL"

In *Transcore*[5] the Federal Circuit held that "an unconditional covenant not to sue authorizes sales by the covenantee for purposes of patent exhaustion." In addition, and perhaps more remarkably, the court significantly expanded the implied license doctrine, as it is commonly understood based on prior Federal Circuit precedent, by expressly recognizing "an implied license . . . by virtue of legal estoppel" where the assertion of a patent not included in a license grant or covenant not to sue would be "in derogation" of rights expressly granted.

The *Transcore* decision makes it clear that framing an immunity in the form of a covenant not to sue, as opposed to a license will not avoid patent exhaustion, as long as the covenant applies to sales by the covenantee.

The Federal Circuit's decision was based on the following factual scenario: In 2000, Transcore and Mark IV Industries, competing providers of toll collection system technology (such as transponders and readers used for E-ZPass) settled a patent infringement suit brought by Transcore. In exchange for a payment of $4.5 million by Mark IV, Transcore "agree[d] and covenant[ed] not to bring any demand, claim, lawsuit, or action against Mark IV for future infringement" of certain

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specified patents, including the '082, '183, and '275 patents.

Several years later, ETC, a toll collection system integrator, won a bid to install a tolling system for the Illinois State Toll Highway Authority (ISTHA). The system itself was purchased by ISTHA from Mark IV. Transcore sued ETC for infringement of the '082, '183, and '275 patents as well as the '946 patent, a patent that had not issued at the time of the Transcore-Mark IV settlement.

The Federal Circuit affirmed the district court's dismissal of Transcore's claims based on patent exhaustion, implied license, and legal estoppel.

A Covenant Not to Sue Amounts to Authorization for Purposes of Patent Exhaustion

The Federal Circuit agreed with the district court's finding that Mark IV's sale of the toll collection system installed by ETC was authorized by the Transcore-Mark IV settlement agreement and that, as a result, Transcore's patent rights with respect to the system were exhausted. Citing *Quanta*, the Federal Circuit stated the rule that exhaustion is triggered only by a sale *authorized* by the patent holder, and then answered in the affirmative the crucial question whether "an unconditional covenant not to sue authorizes sales by the covenantee for purposes of patent exhaustion."

The court cited numerous cases in support of the proposition that a non-exclusive patent license is nothing more than, and equivalent to, a covenant not to sue. It concluded that the difference between a "covenant not to sue" and a "license" is "only one of form, not substance" and that "both are properly viewed as 'authorizations'" for purposes of patent exhaustion. The important question, according to the court, was not whether the settlement agreement between Transcore and Mark IV contained a covenant not to sue or a license, but rather whether it authorized *sales* by Mark IV. The court found that sales were authorized, because the covenant not to sue applied to any future infringement and was not limited to, for example, only the acts of making or using. Consequently, the court found it to authorize all acts that would otherwise be infringing, including the sale of products covered by the specified Transcore patents.

A License May Be Implied by Virtue of Legal Estoppel

Transcore also asserted the '946 patent against ETC. This patent had not yet issued at the time of the Transcore-Mark IV settlement. It was thus not specifically identified in the covenant not to sue. Moreover, the settlement agreement expressly provided that "[t]his Covenant Not To Sue shall not apply to any other patents issued as of the effective date of this Agreement or to be issued in the future."

Despite the seemingly clear exclusion of patents issuing after the effective date of the settlement agreement, the Federal Circuit agreed with the district court's finding that Transcore's rights under the '946 patent were exhausted as a result of Mark IV's sale of the toll system to ISTHA. With respect to the '946 patent, both courts found the sale to be authorized "under an implied license to practice that patent by virtue of legal estoppel." Citing its decision in *Wang v. Mitsubishi*, the Federal Circuit explained that the doctrine of legal estoppel applies "where a patentee has licensed or assigned a right, received consideration, and then sought to derogate from the right granted."[6] Because the '946 patent was broader than, as well as necessary to practice, the '082 patent, which was expressly specified in the settlement agreement, the court reasoned that in order for Mark IV to obtain the benefit of the covenant with respect to the'082 patent it had to be permitted to practice the '946 patent to the same extent as the '082 patent. As a result, reasoned the court, Transcore was estopped from asserting the '946 patent "in derogation of the authorizations granted to Mark IV

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under the . . . '082 patent" and Mark IV was an implied licensee of the '946 patent. The court disregarded the express language in the settlement agreement that the covenant not to sue "shall not apply to any other patents . . . to be issued in the future," stating that this language did not permit Transcore to derogate from the rights it had expressly granted and did not preclude a finding of estoppel.

Finally, because it found Mark IV to have an implied license under the '946 patent, the court found its sales to be authorized, and Transcore's rights exhausted, under that patent.

Significance of the Transcore *Decision*

The *Transcore* decision makes it clear that framing an immunity in the form of a covenant not to sue, as opposed to a license will not avoid patent exhaustion, as long as the covenant applies to sales by the covenantee. What is not clear is whether the court, in repeatedly stating that the covenant at issue was "unconditional," meant to leave room for a different result in the event of a "conditional" covenant not to sue. Clearly, just as the authority to sell under a license can be limited, so can the authority to sell under a covenant not to sue, for example, by limiting the covenant to the manufacture and use of products and excluding sales. In such a case, a sale exceeding the scope of the covenant would not be authorized, and the sale itself would infringe the patent at issue. But it is unclear whether the Federal Circuit meant "limited" when it said "conditional." The court's use of terminology does resemble its confused characterization, in its *LG Electronics v. Bizcom* decision, of a "[license] as a sale for exhaustion purposes" and its conclusion that the patent exhaustion doctrine does not apply to a "conditional agreement."[7] That decision was subsequently reversed by the Supreme Court in *Quanta*, albeit without expressly addressing the Federal Circuit's findings regarding conditional sales.

Secondly, *Transcore* could be read to equate licenses and covenants not only for purposes of the patent exhaustion doctrine's "authorization" requirement, but more generally. The Federal Circuit cites to numerous cases for its seemingly general proposition that "a non-exclusive patent license is equivalent to a covenant not to sue." However, while it may be true that all non-exclusive licenses are covenants not to sue, it does not automatically follow that all covenants not to sue are – or are equivalent to – non-exclusive patent licenses for all purposes. For example, while an assignee of a patent acquires the patent subject to any existing non-exclusive licenses, a covenant not to sue is commonly viewed as personal and not automatically binding on an assignee of the patent. Moreover, it is unclear whether bankruptcy courts will extend the protections expressly afforded to "licensees" under Section 365(n) of the Bankruptcy Code to "covenantees." In other areas, however, courts have previously treated covenants not to sue and licenses alike. Both have been held, for example, to constitute "authority" barring infringement for purposes of Section 271(a) of the Patent Act, and the Federal Circuit's characterization in *Transcore* seems to confirm what some lower courts have previously held,[8] i.e., that the marking statute (Section 287 of the Patent Act) applies to covenants not to sue as well as licenses.

Finally, the most remarkable aspect of *Transcore* may well be its finding of "an implied license . . . by virtue of legal estoppel" under the circumstances of the case. The Federal Circuit's test for an implied license by virtue of legal estoppel is markedly different from the better-known two-prong test established in *Bandag* which requires, as a prerequisite for finding an implied license, that the articles sold have no non-infringing use and that the circumstances of the sale clearly indicate that a license should be implied.[9] *Transcore* confirms that the *Bandag* test is one implied

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license test, but by no means the only one.[10] In fact, it could be said that the license implied under the *Bandag* test is a license implied in *fact*, while the license implied pursuant to the Transcore rule is one implied in *law* – regardless of the circumstances of the transaction and even despite clear language in the agreement excluding any subsequently issued patents such as the one that was then found to be licensed by implication. *Transcore* suggests that it may not ever be possible to effectively exclude from a license under certain patents other patents that are necessary to practice the expressly licensed patents, except, perhaps, where it can be established that the licensee clearly understood that it would not be able to practice the licensed patents and the consideration paid was based on such understanding.

THE EASTERN DISTRICT OF KENTUCKY'S DECISION IN *STATIC CONTROL COMPONENTS*: "*QUANTA* OVERRULED *MALLINCKRODT SUB SILENTIO*"

In *Static Control*[11] the Eastern District of Kentucky granted Static Control's motion to reconsider a prior order that was issued before the Supreme Court's *Quanta* decision. In the prior order, the court had upheld Lexmark's single use restrictions for printer cartridges in reliance on *Mallinckrodt*'s conditional sale doctrine. Upon reconsideration, the court held that Lexmark's patent rights in its toner cartridges were exhausted as a result of their authorized sale and that Lexmark's single use restriction was not enforceable under patent law, because "[a]fter reviewing *Quanta, Mallinckrodt,* and the parties' arguments, [the court was] persuaded that *Quanta* overruled *Mallinckrodt sub silentio*."

At issue in *Static Control* was Lexmark's so called "prebate" or "Lexmark Return Program." Under this program Lexmark offered patented printer cartridges at two prices: a higher price for cartridges without use restrictions and a discounted price for cartridges subject to a single-use restriction and an obligation to return the used cartridge to Lexmark. The restrictions were presented in the form of a typical shrink-wrap license agreement. The restrictive terms were printed on the box and preceded by a statement that, by opening the package or using the cartridge, the user confirms its acceptance of the single use restriction and return obligation. Static Control supplied used toner cartridges to remanufacturers who refilled and resold them. Lexmark asserted claims of direct patent infringement and inducement of patent infringement against Static Control.

In its original order the court rejected Static Control's argument that Lexmark's patent rights were exhausted as a result of the authorized sale of the cartridges. Relying heavily on *Mallinckrodt,* the court found that the sales were "conditional" and thus avoided exhaustion. Upon reconsideration in light of *Quanta,* the court reversed its original order. The decision reviewed in detail the Supreme Court's exhaustion decisions preceding *Quanta* and concluded that the Supreme Court has consistently held that patent holders may not invoke patent law to enforce restrictions on the post-sale use of their patented products. The court then went on to discuss the Supreme Court's *Quanta* decision itself as well as the Federal Circuit's decision and concluded that the Supreme Court – while not expressly overruling *Mallinckrodt* – did so *sub silentio* primarily based on the fact that "the Federal Circuit relied in part on *Mallinckrodt* in reaching its decision in *LG Electronics, Inc. v. Bizcom Electronics, Inc.* . . . , the decision the Supreme Court reversed in *Quanta*."

The conclusion that *Quanta* overruled *Mallinckrodt* is certainly debatable. In fact, most commentators were surprised that the Supreme Court in *Quanta* did not address *Mallinckrodt*

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or the conditional sale doctrine at all – even though the Federal Circuit's decision below rested almost entirely on its highly questionable finding of not one, but two conditional sales, and despite the fact that numerous amici briefs submitted to the Supreme Court in the *Quanta* case focused exclusively on this issue. Rather than interpret *Quanta* as overruling *Mallinckrodt*, the decision might just as well be read as omitting any discussion of *Mallinckrodt* as irrelevant, because even if patent exhaustion could be avoided by a conditional sale, there clearly was no conditional sale in *Quanta*. In finding a conditional sale in *Bizcom*, the Federal Circuit had stretched the concept so far that even those generally in favor of the conditional sales doctrine were struggling to justify its application in *Quanta*. In fact, in its Supreme Court brief, LG Electronics all but omitted a conditional sales argument, relying instead on its re-characterization of the case as an implied license case. Thus, another interpretation of *Quanta* is that it simply was not necessary for the Court to address *Mallinckrodt*. The same could be said for *Static Control*, where the Federal Circuit itself noted that "[n]o potential buyer was required to agree to abide by the Prebate terms before purchasing a cartridge. Thus, sales of Lexmark's Prebate toner cartridges were authorized and unconditional, just like sales of LGE's patented products in *Quanta*." In other words, if LGE's sales – like Lexmark's sales – were, in fact, unconditional, there was no need for the Supreme Court to overrule *Mallinckrodt* – just as there was no need for the *Static Control* court to so interpret *Quanta*. The fact that the court did so anyway may be evidence of a more general opposition to *Mallinckrodt's* basic principle. The court in *Static Control* believed that post-sale restrictions on the use of patented articles should not be enforceable under patent law, notwithstanding the possibility that they may be enforceable under contract law to the extent such restrictions are validly agreed to by the party against whom they are to be enforced. This is consistent with the criticism *Mallinckrodt* has faced since the very beginning – and while the Supreme Court did not clearly take sides, it did reignite the debate. The conditional sales doctrine is being challenged, although it remains to be seen whether other courts follow *Static Control*.

THE NORTHERN DISTRICT OF CALIFORNIA'S DECISION IN *LG ELECTRONICS v. HITACHI*: AUTHORIZED *FOREIGN* SALES TRIGGER PATENT EXHAUSTION

LG Electronics v. Hitachi[12] presents another example of a district court relying on *Quanta* to justify a departure from controversial Federal Circuit precedent. The facts in this case were almost identical to the facts in *Quanta*. LG Electronics asserted the same patents against Hitachi that were at issue in *Quanta*, and the allegedly infringing acts by Hitachi were the same as those complained about in *Quanta*, namely, the combination of parts sold by Intel under license from LG Electronics with other components in a way that practiced LG Electronics' patented methods.

LG Electronics argued that this case was distinguishable from *Quanta*, relying primarily on the fact that Intel's authorized sale of chipsets had not occurred in the United States. Citing the Federal Circuit's *Jazz Photo* decisions, LG Electronics argued that foreign sales could not trigger exhaustion of U.S. patents regardless of whether these sales were authorized.

The district court acknowledged that the Federal Circuit's holding in the *Jazz Photo* cases would prohibit a finding of patent exhaustion based on a foreign sale, but held that such a result would be inconsistent with the Supreme Court's *Quanta* decision because it would permit the patent holder to do exactly the kind of "end-run" around exhaustion that the Supreme Court disapproved of in *Quanta*. Even though the Supreme Court had not specifically addressed

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foreign sales in its decision, the district court stated that the Court's rationale for its decision supported the conclusion "that it meant 'authorized sales' to include 'authorized foreign sales.'" Because it was undisputed that Intel's foreign sales to Hitachi were specifically authorized by virtue of Intel's worldwide license, the court held that these sales triggered exhaustion of LG Electronics' patents essentially embodied in the Intel products sold.

Prior to *Quanta*, the Federal Circuit's categorical ruling in *Jazz Photo* that only authorized sales in the United States trigger exhaustion of a United States patent had frequently been criticized. Especially in cases where the seller had a worldwide license, the result – exhaustion if the product was first sold in the United States, but no exhaustion if the product was first sold abroad and then resold in the United States – seemed arbitrary because a first sale in the United States would have been authorized in any event. In *Hitachi*, the district court seized the opportunity to depart from the Federal Circuit's rule by broadly interpreting *Quanta*, despite the fact that *Quanta* did not expressly address the issue of foreign sales.

PRACTICAL IMPLICATIONS

The practical implications of the Federal Circuit's *Transcore* decision could be significant. Partly to avoid patent exhaustion, it has become common practice for many patent owners to grant limited personal covenants not to sue rather than licenses – often expressly retaining the right to assert their patents against downstream customers of the covenantee. The Federal Circuit has now expressly confirmed what *Quanta* and other cases before it already implied: that for purposes of patent exhaustion a covenant not to sue amounts to authorization just as a license does. As *Quanta* made clear, patent owners seeking to avoid exhaustion must limit the *scope* of the licensee's or covenantee's authorization to sell. Sales exceeding the scope of the authorization remain unauthorized, and are themselves infringing, and thus do not trigger exhaustion. What courts will not allow, however, is the grant of patent immunity to a party upstream while a patent owner retains the ability to assert its patents against downstream customers.

More generally, patent owners and licensees or covenantees will need to consider carefully the implications of granting or obtaining a covenant not to sue instead of a license. While a covenant may be treated like a license for many purposes – including, for example, with respect to patent marking – it may still afford less protection than a license in the event of bankruptcy or a transfer of the underlying patent to a third party who does not agree to be bound by the covenant.

All licensors should be aware of *Transcore*'s holding regarding implied licenses by virtue of estoppel. Because such a license is, in effect, a license implied-in-law, disclaimers of implied licenses and even express exclusions of certain patents may not succeed in defeating the implication of a license as to patents that are necessary to practice the expressly licensed patents.

The impact of the *Static Control* and *Hitachi* decisions is less clear at this time. Both are district court decisions that are clearly inconsistent with pre-*Quanta* Federal Circuit precedent. And while both decisions rely on *Quanta* to justify that departure, *Quanta* did not clearly address either of the issues raised in *Static Control* or *Hitachi*. Until the Federal Circuit itself either adopts or rejects the district courts' interpretations of *Quanta*, it will remain unclear to what extent *Mallinckrodt* and *Jazz Photo* remain good law. ■

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Federal Circuit Changes Course, Finds Claims to Novel Gene Obvious

By Matthew I. Kreeger

For more than 13 years, biotechnology companies have been able to count on one thing: a claim to a novel gene was non-obvious where the gene's sequence was unknown in the prior art. Under *In re Deuel*, 51 F.3d 1552 (Fed. Cir. 1995), even where one of skill in the art might have a reasonable expectation of success at cloning an unknown gene, the gene itself was still held to be non-obvious.

The *Deuel* inventors claimed isolated and purified DNA and cDNA sequences that encoded heparin-binding growth factors ("HBGFs"). *Id.* at 1556 n.5. The prior art contained references disclosing a group of similar heparin-binding proteins, including a partial amino acid sequence, and general techniques of isolating a gene using a gene probe. *Id.* at 1556. The Federal Circuit held that knowledge of general cloning techniques and partial knowledge of the protein's amino acid sequence would not necessarily lead a person of ordinary skill in the art to prepare the specific sequence claimed: "the existence of a general method of isolating cDNA or DNA molecules is essentially irrelevant to the question whether the specific molecules themselves would have been obvious . . . . A general incentive does not make obvious a particular result." *Deuel*, 51 F.3d at 1559. Although it may have been "obvious to try" to prepare the claimed sequences, the actual sequences themselves were not obvious. *Id.* Thus, *Deuel* followed in the footsteps of *In re Bell*, 991 F.2d 781 (Fed. Cir. 1993). There, the Federal Circuit rejected an argument by the Patent and Trademark Office that "a gene is rendered obvious once the amino acid sequence of its translated protein is known." *Id.* at 785.

However, the *Deuel* rule no longer applies. On April 3, 2009, the Federal Circuit issued *In re Kubin*, 561 F.3d 1351 (Fed. Cir. 2009),[1] where it reconsidered *Deuel*, and concluded that it had been overruled by the Supreme Court's recent decision in *KSR Int'l Co. v. Teleflex Inc.*, 550 U.S. 398 (2007). Under *Kubin*, a claim to a novel gene may be obvious if the prior art teaches "a protein of interest, a motivation to isolate the gene coding for that protein, and illustrative instructions" for methods to clone the gene that provide a reasonable expectation of success. *Kubin*, 561 F.3d at 1360. *Kubin*

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1 128 S. Ct. 2109 (June 9, 2008).

2 *See* Morrison & Foerster Intellectual Property Law Update, *Supreme Court Issues Ruling on Patent Exhaustion in Quanta Computer, Inc. v. LG Electronics, Inc.* (June 9, 2008).

3 *See Mallinckrodt, Inc. v. Medipart, Inc.* 976 F.2d 700, 708 (Fed. Cir. 1992).

4 *See Jazz Photo Corp. v. Int'l Trade Comm'n*, 264 F.3d 1094 (Fed. Cir. 2001) and *Fuji Photo Film Co. Ltd. v. Jazz Photo Corp.*, 394 F.3d 1368 (Fed. Cir. 2005).

5 *Transcore, LP v. Electronic Transaction Consultants Corp.*, Case No. 2008-1430, 2009 U.S. App. LEXIS 7428 (Fed. Cir., April 8, 2009).

6 *Wang Labs., Inc. v. Mitsubishi Elecs. Am., Inc.*103 F.3d 1571, 1581 (Fed. Cir. 1997).

7 *LG Elecs., Inc. v. Bizcom Elecs., Inc.*, 453 F.3d 1364, 1370 (Fed. Cir. 2006), *rev'd* 128 S. Ct. 2109 (June 9, 2008).

8 *See, e.g. In re Yarn Processing Patent Validity Litigation*, 602 F. Supp. 159, 169 (W.D.N.C. 1984) ("Section 287 applies to all 'persons' who make or sell 'for or under' the authority of the patentee and thus applies . . . regardless of the particular form these authorizations may take and regardless of whether the authorizations are 'settlement agreements,' 'covenants not to sue' or 'licenses.'").

9 *See Bandag, Inc. v. Al Bolser's Tire Stores, Inc.*, 750 F.2d 903, 924-25 (Fed. Cir. 1984).

10 Other recent Federal Circuit decisions have also found implied licenses under theories different from both the one underlying *Bandag* and the one underlying *Transcore*. *See, e.g. Jacobs v. Nintendo of Am., Inc.*, 370 F.3d 1097, 1101 (Fed. Cir. 2004) and *Zenith Elecs. Corp. v. PDI Communications Systems, Inc.*, 522 F.3d 1348 (Fed. Cir. 2008).

11 *Static Control Components, Inc. v. Lexmark Int'l, Inc.*, Case Nos. 5:02-571 and 5:04-84, 2009 U.S. Dist. LEXIS 29479 (E.D. Ky. March 31, 2009).

12 *LG Electronics, Inc. v. Hitachi, Ltd.*, Case No. C 07-6511 CW, 2009 U.S. Dist. LEXIS 20457 (N.D. Cal. March 13, 2009).

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therefore marks a substantial shift in the law of obviousness as applied to biotechnology inventions.

THE INVENTION IN THE *KUBIN* CASE

The inventors in *Kubin* claimed "DNA molecules ('polynucleotides') encoding a protein ('polypeptide') known as the Natural Killer Cell Activation Inducing Ligand ('NAIL')." *Kubin*, 561 F.3d at 1353. NAIL is a "specific receptor protein on the cell surface that plays a role in activating" natural killer cells, immune cells that play a role in fighting tumors and viruses. *Id.* The key piece of prior art was the Valiante patent, which disclosed "a receptor protein called 'p38' that is found on the surface of human" natural killer cells. *Id.* at 1354. It was undisputed that "p38" is the same protein as NAIL. *Id.* Thus, the prior art established that the protein encoded by the inventor's claimed DNA was previously known to exist.

Valiante also disclosed that "[t]he DNA and protein sequences for the receptor p38 may be obtained by resort to conventional methodologies known to one of skill in the art," describing several such methods that could be tried. *Id.* The Court recognized, however, that Valiante disclosed "neither the amino acid sequence of p38 . . . nor the polynucleotide sequence that encodes p38." *Id.*

Nevertheless, the Board found the claims at issue obvious in light of Valiante and Sambrook, a laboratory manual providing general methods for cloning genetic material incorporated by reference into Valiante.

THE FEDERAL CIRCUIT OPINION

The Federal Circuit affirmed the Board, finding all of the claims in *Kubin* obvious. The Court held that "[i]nsofar as *Deuel* implies the obviousness inquiry cannot consider that the combination of the claim's constituent elements was 'obvious to try,' the Supreme Court in *KSR* unambiguously discredited that holding." *Id.*

The Federal Circuit noted that Valiante disclosed "the very protein of appellants' interest – 'p38'" as well as the "a five-step protocol for cloning nucleic acid molecules encoding '38/NAIL.'" *Id.* at 1360. This record reinforced "the Board's factual finding that one of ordinary skill would have been motivated to isolate NAIL cDNA." *Id.* Thus, the claimed invention was "'the product not of innovation but of ordinary skill and common sense.'" *Id.* (quoting *KSR*, 550 U.S. at 421).

The Court went on to discuss an older decision, *In re O'Farrell*, 853 F.2d 894 (Fed. Cir. 1988), which the Court believed more accurately expressed the limits of the "obvious to try" analysis. *O'Farrell* court described two situations in which "obvious to try" should not be "erroneously equated with obviousness under § 103": (1) "where a defendant merely throws metaphorical darts at a board filled with combinatorial prior art possibilities;" and (2) where "what was 'obvious to try' was to explore a new technology or general approach that seemed to be a promising field of experimentation," but "the prior art gave only general guidance as to the particular form of the claimed invention or how to achieve it." *Id.* at 1359. Thus, the *Kubin* decision provides some potential protection against future attempts to characterize an invention as invalid due to "obvious to try."

Another potentially significant portion of the opinion addressed the fact that certain of *Kubin*'s claims recited as a limitation "wherein the polypeptide binds CD48." The inventors "trumpet[ed] their alleged discovery of a binding relationship between NAIL and a protein known as CD48." *Id.* at 1352. Prior to the *Kubin* inventors' discovery, it was

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apparently not known that the NAIL polypeptide binds CD48. The court ruled, without extended discussion, that "[e]ven if no prior art of record explicitly discusses the 'wherein the polypeptide binds CD48' aspect of claim 73," the claims were still obvious, as "Valiante's teaching to obtain cDNA encoding p38 also necessarily teaches one to obtain cDNA of NAIL that exhibits the CD48 binding property." *Id.* at 1357. Thus, the court appears to have endorsed a finding of obviousness based on inherent properties that were not known to one of skill in the art at the time the application was filed. This portion of the opinion is only a paragraph long, however, and cites to a 1945 case from the Court of Customs and Patent Appeals. If the court adopts this approach in future cases, it could have profound implications, not just in biotechnology cases.

IMPLICATIONS FOR BIOTECHNOLOGY INVENTIONS

The *Kubin* case represents a major change in the law governing patentability of biotechnology inventions. Biotechnology inventions frequently involve

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The Federal Trademark Dilution Law: Is It Working?

By Jennifer Lee Taylor

In the past 15 years, Congress has enacted two versions of a federal trademark dilution law. These laws have been passed in response to lobbying by brand owners to provide broader protection for famous trademarks beyond that provided under the trademark infringement laws. In contrast with trademark infringement laws, which require a finding of likelihood of confusion, the federal trademark dilution laws are designed to protect famous trademarks where no likelihood of confusion exists. With so much time having passed since the first federal trademark dilution law was enacted, it is appropriate to ask whether the federal dilution laws are providing owners of famous trademarks with the protection that they want, without diminishing the rights of others to compete fairly in the market place. Unfortunately, but not unpredictably, the answer seems to be mixed.

UNANSWERED QUESTIONS

Congress passed the initial Federal Trademark Dilution Act ("FTDA") in 1995, which set out the basic parameters for a federal trademark dilution claim for famous trademarks, including a multi-element test to determine if a trademark is famous. Under the FTDA, truly famous trademarks are protected from dilution, which is defined as "the lessening of the capacity of a famous mark to identify and distinguish goods or services," regardless of whether confusion exists or is likely. The FTDA, however, left many questions unanswered. For example, was a likelihood of dilution sufficient or was actual dilution required to establish a dilution claim? Could dilution be established through tarnishment, or was it limited to blurring? Was nationwide fame required under federal dilution laws or would marks be protected if they were famous only in a niche market? Finally, was the federal dilution law limited to inherently distinctive marks, or did it protect marks that were not inherently distinctive?

Early cases answering these questions surprised many, particularly owners of famous marks who had hoped that the FTDA would provide broader protection for their marks. The U.S. Supreme Court answered two of these questions in 2003 in *V Secret Catalogue v. Mosley*, 537 U.S. 418 (2003), holding that under federal law a likelihood of dilution was not sufficient to prevail on a federal dilution claim,

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and that the federal dilution law did not protect marks from tarnishment. As a result, the U.S. Supreme Court held that the Victoria's Secret mark had not been diluted by the use of Victor's Secret for a small store selling lingerie, adult videos, and sex toys. At about the same time, the Third Circuit concluded that niche fame would be sufficient to merit protection under the federal dilution law, and the Second Circuit ruled that marks that are not inherently distinctive are never entitled to protection under the federal dilution laws, regardless of how famous they become. The Second Circuit's ruling left no federal dilution protection for numerous marks that were not inherently distinctive, for example, McDonalds for restaurants and Windows for computer operating systems that opened within "windows."

CONGRESS PROVIDES SOME ANSWERS

As a result of further lobbying by brand owners, Congress enacted the Trademark Dilution Revision Act of 2006 ("TDRA") to address the issues raised by the FTDA. Its key changes address the four issues highlighted above. First, it establishes that a likelihood of dilution is enough to establish a claim (actual dilution is not required). Second, it establishes tarnishment as an alternative form of dilution under federal law. Third, it defines the fame that is required to merit protection under federal law as nationwide fame, not niche fame. Fourth, it establishes that marks do not need to be inherently distinctive to be famous. Even a mark that starts off as merely descriptive can be protected under the federal trademark dilution laws once it becomes sufficiently famous.

Following the enactment of the TDRA in 2006, it would be reasonable to think that courts are now making predictable decisions based upon the clear guidelines provided by the combination of the FTDA and TDRA, but that would be wrong. In fact, recent decisions under the federal trademark dilution law show that courts remain confused about what dilution is, what is needed to prove dilution, what marks are protected by the federal dilution laws, and what defenses are available. As a result, a poorly reasoned body of case law is developing around the issue. Unfortunately, because so few cases have been decided since the TDRA was enacted in 2006, those cases are likely to be widely cited going forward.

DILUTION RUN AWRY

For example, although the Supreme Court's decision in the Victoria's Secret case and the TDRA both establish that a mere association between the defendant's mark and the plaintiff's mark is not sufficient to establish dilution by blurring, and both expressly state that a plaintiff seeking to establish dilution by blurring *must* show that the defendant's activities are likely to "impair the distinctiveness of" the plaintiff's famous mark, harm to the plaintiff's mark is seldom mentioned, let alone considered. As a result, judges are routinely finding dilution by blurring once they conclude that a defendant's mark creates *any* association with the plaintiff's mark, regardless of whether the association is likely to impair the distinctiveness of the plaintiff's mark. *See Nike, Inc. v. Nikepal Int'l*, 84 U.S.P.Q.2d 1820, 1828 (E.D. Cal. 2007) (dilution by blurring found and injunction issued with no mention of harm to the plaintiff's mark); *The Hershey Co. v. Art Van Furniture*, 2008 U.S. Dist. LEXIS 87509 (E.D. Mich. 2008) (same). Although these decisions might make owners of famous trademarks happy, they are based upon a faulty application of federal trademark dilution law. If courts continue to decide dilution by blurring cases without finding that the distinctiveness of the plaintiffs' marks have been impaired, trademark owners will be emboldened to pursue dilution claims even in cases where they know that they have no colorable claim of harm.

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In contrast with the *Nike* case and the *Hershey* case, there have been some recent decisions where courts have gone through the entire trademark dilution analysis and have found no dilution.

Similarly, although dilution by blurring is limited to cases where the defendant's mark is "identical" or "nearly identical" to the plaintiff's famous mark (after all, blurring refers to the use of an identical mark on a dissimilar product that comes from another source, such as ROLEX for bread or KODAK for pianos), courts have not adhered to this strict standard in deciding dilution by blurring under federal law. On remand in the Victoria's Secret case, the judge was satisfied with his conclusion that Victor's Secret was "substantially similar" to Victoria's Secret, while the judge in the *Hershey* case, cited above, found dilution by blurring where she concluded that there was "an unmistakable resemblance" between a HERSHEY chocolate bar and an advertisement with the wording "ART VAN" superimposed over a generic chocolate bar. In the *Nike* case, cited above, the judge did cite the correct "nearly identical" standard, but his conclusion that NIKEPAL is "nearly identical" to NIKE surely surprised the defendant in the case and should serve as a warning that judges still have a lot of discretion in these cases.

DILUTION AS IT SHOULD BE

In contrast with the *Nike* case and the *Hershey* case, there have been some recent decisions where courts have gone through the entire trademark dilution analysis and have found no dilution. One example is *Louis Vuitton Malletier v. Haute Diggity Dog, LLC*, 507 F.3d 252 (4th Circ. 2007), where the Fourth Circuit found no dilution by blurring. Key to its analysis was that the defendant's CHEWY VUITON dog chew toys were using a mark that was *not* identical to the famous LOUIS VUITTON mark and that the LOUIS VUITTON mark was so strong and famous that its distinctiveness could not be impaired by the use of CHEWY VUITON on dog chew toys. Although the court reached these conclusions in the context of analyzing the defendant's parody defense, these conclusions should have been sufficient to establish that there was no dilution by blurring regardless of whether the parody defense was available. This is exactly what happened in *Starbucks Corp. v. Wolfe's Borough Coffee, Inc.*, 559 F. Supp. 2d 472 (S.D.N.Y. 2008), where the court found no dilution by blurring from defendant's use of CHARBUCKS on coffee products. The court's conclusion was based on the fact that defendant's CHARBUCKS marks were not substantially similar to plaintiff's STARBUCKS marks and that the use of CHARBUCKS for coffee products was not likely to impair the distinctiveness of the famous STARBUCKS marks.

WHY ARE DILUTION CASES SO UNPREDICTABLE?

Despite the fact that the combination of the FTDA and the TDRA were intended to establish clear parameters for federal trademark dilution cases, we are continuing to see inconsistent decisions in dilution cases. While this could lead to the assumption that the federal trademark dilution law is still not as clear as it should be, there may be another issue at play in these cases, namely a concept of fundamental fairness. Despite the fact that there is nothing in the dilution law to prohibit free riding, the judges in the *Nike* case and the *Hershey* case seem to have been influenced by the idea that it is inappropriate for defendants to take a

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"free ride" by creating an association with a famous mark; they enjoined the use of the trademarks, and thereby stopped the free riding, even without evidence that the plaintiffs had been harmed in any way by the defendants' activities. These decisions stand in stark contrast with the *Louis Vuitton* and *Starbucks* cases where the judges understood that if the defendants were not being harmed by the plaintiffs' activities, they could not be enjoined under the federal trademark dilution laws.

Trademark dilution law is not a complicated mystery and should not be treated as such by the parties or judges. The statute is quite clear as to what type of marks are to be protected under the federal law, and as to what elements must be satisfied to establish dilution by blurring and dilution by tarnishment. Because predictability is better for both plaintiffs and defendants, it is up to both plaintiffs' counsel and defense counsel to do a better job educating the courts on the issues underlying trademark dilution and elements required to establish a claim. ■

How to Make Sure Your ITC Exclusion Order Has Teeth

By G. Brian Busey and Teresa M. Summers

The U.S. International Trade Commission ("ITC" or "Commission") has become an increasingly popular forum for patent litigation involving imported products. Although the ITC does not have power to award damages to patent holders, the injunctive relief it is authorized to grant—exclusion orders enforced by U.S. Customs and Border Protection ("Customs") interdicting infringing imports, and cease-and-desist orders prohibiting distribution of U.S. inventories—are considered potent forms of relief. When the ITC issues a Final Determination, it also orders the appropriate remedy, commonly called a Limited Exclusion Order.[1] The limited exclusion order generally prohibits any company, including any third party, from (1) importing infringing products for consumption in the U.S. that are manufactured abroad by or on behalf of the respondent or any of its affiliated companies, parents, subsidiaries, or other related business entities, or their successors or assigns; and (2) withdrawing such products from a bonded warehouse for consumption in the U.S.

Companies that are successful in obtaining an ITC exclusion order may believe that they have achieved their objective and are free to move on to other business. Unfortunately, this is not the case. Companies that do not take the necessary steps to enforce their exclusion order run the risk of allowing the continued importation and sale of infringing products. Vigilance and close coordination with both Customs and the Intellectual Property Rights Branch ("IPRB") are needed to ensure that an exclusion order is properly executed. There are several steps companies and their counsel should take to remain vigilant and help enforce the exclusion order.

ISSUED BY THE ITC, ENFORCED BY CUSTOMS: IN HARMONY OR *AD HOC*?

When the ITC issues an exclusion order, it notifies the Secretary of the Treasury and Customs. Customs is a U.S. agency within the U.S. Department of Homeland Security that enforces ITC exclusion orders. Notably, there are no publicly available rules governing Customs implementation and enforcement of ITC exclusion orders. Customs relies upon the patents at issue along with the ITC's initial determination, exclusion order, Commission Opinion, and Final Determination as the primary documents in its enforcement role.

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Your ITC Exclusion Order

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The lack of rules and sometimes ambiguous scope of exclusion orders compels Customs to be interpretive. As such, dealing effectively with Customs is crucial in determining how expansively the exclusion order will be applied by Customs agents at U.S. ports of entry. The Intellectual Property Rights Branch ("IPRB") is located at Customs headquarters in Washington, D.C., and assumes the primary responsibility for the interpretation and implementation of ITC limited exclusion orders.

CUSTOMS HEADQUARTERS INSTRUCTS OVER 320 PORTS OF ENTRY

Soon after receiving the exclusion order, generally within three to six weeks, Customs prepares appropriate instructions to the ports of entry implementing the order. The instructions are intended to tailor the enforcement of the limited exclusion order to cover only the infringing products. The instructions also are intended to allow for the continued importation of any existing non-infringing products. Importation of newly developed technology and "re-designed" products is discussed in Section IV below. By way of the Customs intranet website, IPRB issues an "Exclusion Order Notice" or a "Trade Enforcement Alert," commonly referred to as instructions, to all of the 320 Customs ports of entry.

Dealing effectively with Customs is crucial in determining how expansively the exclusion order will be applied by Customs agents at U.S. ports of entry.

Before instructions are sent to the ports, any interested party, whether an importer, manufacturer, respondent or complainant, has an opportunity to meet with IPRB to present its position as to the proper interpretation of the scope of the limited exclusion order. Presentations regarding the scope of an order generally involve meetings with the IPRB in order to assist in crafting the instructions.

The IPRB does not share with counsel or the parties the actual text of the instructions that it sends to the ports through the electronic Customs database. Those instructions are confidential, are not subject to the Freedom of Information Act, and are entered directly into Customs' electronic database used by Customs inspectors at various ports. With IPRB's approval, representatives of the private parties may be allowed to visit the individual ports to educate local Customs agents. While a detailed presentation to Customs will help to ensure proper enforcement, the only way to know that either an error is contained in the instructions, or the instructions are not being correctly implemented, is to see if a product is or is not properly excluded. Thus, it is in the parties' strong interest to closely monitor infringers' activities even after a limited exclusion order is granted.

EX PARTE MEETINGS WITH CUSTOMS REGARDING NON-INFRINGING PRODUCTS

Generally, a party should meet with Customs officials at the IPRB at the earliest opportunity to discuss the scope of the limited exclusion order and assist Customs in promptly identifying infringing or non-infringing products. Shortly before and after the Final Determination issues, a party can often work with Customs to determine whether existing non-infringing technology (i.e. new designs or prototypes that were in development prior to the institution of the ITC case) and products are within the scope of the limited exclusion order. It is advisable that both parties meet with the IPRB to clarify the scope of the exclusion order. A complainant needs

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to educate the IPRB officials about the characteristics and models of the infringing products in case the list of infringing products is underinclusive.

However, if a new technology or product is a design-around (i.e. a product that was created in order to avoid the limited exclusion order), the IPRB will consider these design-arounds only after the limited exclusion order is issued. The procedure generally used to determine whether a design-around product infringes is set forth in 19 C.F.R. § 210.177, and is known as a Customs "Ruling Letter." In that *ex parte* procedure, a respondent submits written information to IPRB, explaining why a product falls outside the scope of the exclusion order. Depending on how IPRB handles the 177 Ruling Request, the Complainant may not be given any opportunity to submit a response to the proposed Ruling Request. After consideration of the submissions, IPRB will issue a letter that rules on the treatment of the design-around. A less formal proceeding has been used on occasion whereby the IPRB will meet separately with both parties to ascertain their respective positions with respect to a design-around. A respondent is given the opportunity to show that its design-around is not within the scope of the limited exclusion order and, in turn, the complainant is given the opportunity to counter this with its own evidence.

Unfortunately, Customs' turnaround time in deciding whether a non-infringing product is outside the scope of a limited exclusion order can be lengthy and uncertain. The IPRB advises that they attempt to make a decision in a matter of several weeks or a few months. However, depending on the circumstances, Customs has taken a year or more to complete its process. Once the process is completed, the parties can assist Customs indirectly in crafting instructions that would permit importation of certain non-infringing products outside the scope of the limited exclusion order.

CERTIFICATION PROVISION AND DESIGN-AROUNDS: SAFEGUARD OR LOOPHOLE?

A complainant will also want to carefully monitor how non-infringing imports are treated by the ITC and Customs in an effort to ensure that purported design-arounds are excluded from entry until they have been adjudicated not to infringe. A respondent, on the other hand, will try to ensure a smooth transition from an infringing product to a new, non-infringing alternative.

> The mere fact that a party provides a certification does not necessarily mean that its goods will be exempt from a limited exclusion order.

The ITC may issue a "certification provision" by which a respondent may certify that certain imports are not covered by the exclusion order. Certification provisions are included in a limited exclusion order when the ITC believes it will be difficult for Customs to determine whether or not particular items are infringing and properly excluded, or believes that there is a possibility that non-infringing goods may be inadvertently excluded or detained. Certification provisions generally require the certifying party to certify, under oath to Customs authorities, at the time of importation, that based upon reasonable inquiry the goods it is seeking to import are outside the scope of the limited exclusion order. The ITC has developed fairly standardized language for a typical certification provision in its limited exclusion orders. However, the ITC generally does not provide detailed certification instructions, because

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Customs implements and enforces the certification process.

Notably, the mere fact that a party provides a certification does not necessarily mean that its goods will be exempt from a limited exclusion order. Customs may still review the content of the certification to determine if sufficient information is provided. Customs may also require that a respondent offer proof to substantiate its claims. The extent of the proof required is largely at the discretion of the Customs authorities.

A complainant should be vigilant to ensure that a certification provision does not become a loophole through which design-around products are imported prior to their proper adjudication. A respondent, on the other hand, may seek to obtain the permission of the IPRB to use a certification provision that a new design-around does not infringe. It has been questioned whether certification provisions can be used in order to import new design-around products. The IPRB advises, however, that it alone is responsible for determining whether proposed design-arounds fall outside an exclusion order. As a result, the IPRB advises that the Customs certification used at the local ports by CPB is not an appropriate vehicle for determining whether a new design-around may be acceptable to Customs. That is, in the first instance of importing a new design-around, Customs will likely not allow the certification process to be used. However, after Customs evaluates and approves a design-around, Customs may allow a respondent to use the certification process. Thus, a respondent would initially need to prove factually to the satisfaction of the IPRB that a new design-around does not infringe.

ALTERNATIVE APPROACHES: BACK TO THE ITC?

There are alternative approaches to working with Customs to specify the scope of an exclusion order. These alternative approaches (e.g. enforcement proceedings or advisory opinion proceedings, pursuant to 19 C.R.R. §§ 210.75, 210.79) entail having the ITC institute an appropriate investigation, allowing for discovery and presentation of evidence for an adequate record on which to rule on such a request. However, these alternative proceedings are likely to be less expeditious than approaching Customs and often can last a year.

MONITORING ENFORCEMENT

Unfortunately, there is no guaranteed mechanism for monitoring enforcement of exclusion orders. Customs treats its enforcement efforts as confidential and usually declines to disclose when it stops specific shipments of infringing goods. There are several measures complainants can take to monitor enforcement activity. One measure is to obtain regular reports of import data from private services such as *Piers.com* that maintain commercial databases of import data taken from bills of lading and other Customs documentation. Another approach is to work with private investigators that specialize in domestic and international field investigations to determine if infringing goods are continuing to enter the U.S. Yet another measure is leveraging the complainant's own marketing and sales forces who typically know whether infringing goods are still in the U.S. market. Companies often find themselves in the unfamiliar position of working proactively to enforce their hard-won exclusion orders. Our team of ITC Section 337 litigators assists our clients on a regular basis to solve the myriad challenges of enforcing exclusion orders. ■

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[1] The ITC also has authority, provided certain additional requirements are met, to issue a general exclusion order that applies to infringing products of nonparties as well as parties. The ITC also has authority to issue cease and desist orders to prevent domestic respondents from selling or importing infringing goods.

Federal Circuit Changes Course

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previously unknown genetic material. In many cases, however, the existence of a biological molecule itself was known, allowing for a credible argument that one of skill in the art could have discovered the sequence coding for the molecule. In the future, we can expect the Patent Office to be much more likely to reject such patents on obviousness grounds. Indeed, reexamination, already on the rise in the wake of *KSR*, is likely to be increasingly invoked in an attempt to invalidate biotechnology patents.

As a result of *Kubin*, we can expect increasing reliance on claims to methods of use of genetic material. Such claims may be immune from a *Kubin*-style attack, as the prior art is less likely to include explicit or implicit guidance to use a novel protein in a particular way. Moreover, method of use claims may be better positioned to permit an inventor to introduce evidence of unexpected success to rebut a *prima facie* case of obviousness. ■

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[1] Morrison & Foerster LLP filed an amicus brief in the Kubin case.

Should Estoppel Stop You From Requesting Inter Partes Reexamination?

By Robert A. Saltzberg, Kaare D. Larson, and Benno M. Guggenheimer

News & Notes on Reexaminations is a recurring section of the Intellectual Property Quarterly Newsletter.

INTRODUCTION

Inter partes reexamination offers an attractive supplement (or even alternative) to litigation for challenging the validity of a patent. Unlike *ex parte* reexamination, *inter partes* reexamination advantageously enables a third party requester to participate in the prosecution, including any appeal.

Inter partes reexamination, however, is not without its risks. The estoppel aspect of the procedure is "the most frequently identified inequity that deters third parties from filing requests for *inter partes* reexamination of patents."[1] Specifically, under 35 U.S.C. § 315(c), a third party requester may be estopped in litigation from challenging patent claims on invalidity grounds that were or could have been raised in the course of an *inter partes* reexamination.

Accordingly, as part of the decision to file an *inter partes* reexam, a party should carefully consider potential estoppels that could attach in a later district court proceeding. Such an inquiry can be difficult, as the statutes, rules, regulations, and related case law do not clearly define Section 315(c)'s estoppel provisions. And, although the USPTO has admitted that "there is widespread agreement that the estoppel provisions should be better defined,"[2] very little progress has been made so far.

Nevertheless, a party with an understanding of the language and history of Section 315(c) may be able to mitigate some of the risk. To assist with this inquiry, the following discussion identifies specific categories of prior art that may pose a relatively low risk of triggering Section 315(c) estoppel and, thus, may be preserved for future litigation.

SCOPE OF *INTER PARTES* REEXAMINATION ESTOPPEL

Under Section 315(c), a third party requester "is estopped from asserting at a later time, in any civil action . . . the invalidity of any claim finally determined to be valid and patentable on any ground which the third-party requester *raised or could have raised* during the *inter partes* reexamination proceedings."[3] Additionally, Section 315(c) states, "[t]his subsection does not prevent the assertion of invalidity based on newly discovered prior art *unavailable to the third-party*

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requester and the Patent and Trademark Office at the time of the *inter partes* reexamination proceedings."[4]

The scope of Section 315(c) estoppel appears to be limited in several ways. For example, Section 315(c) only applies to claims that are *finally determined* to be valid in a reexamination proceeding.[5] Thus, Section 315(c) estoppel should, at least, not apply to a validity challenge in litigation that is expected to be resolved before conclusion of the reexamination proceeding. Note that the typical median pendency of an *inter partes* reexamination, absent appeal, is roughly 33 months.[6]

Additionally, Section 315(c) estoppel only applies to evidence and invalidity arguments that were or *could have been* raised by the third party requester at the time of the *inter partes* reexamination. The prior art considered in a request for *inter partes* reexamination is limited to patents and printed publications. Thus, invalidating prior art evidencing public use and sales activities under 35 U.S.C. 102(b) remains available for subsequent validity attacks in litigation. Arguments that rely on combinations with a prior art reference that was off-limits from consideration during reexamination may also be preserved for litigation. Additionally, the statute expressly excludes any newly discovered prior art, unavailable at the time of the *inter partes* examination.

To further clarify the bounds of reexamination estoppel, we analyze these three categories of prior art in more detail below.

Prior art used to assert invalidity on different grounds

Section 315(c) estops a defendant from arguing in litigation any "ground" that "could have been raised" against claims in an *inter partes* reexamination. The "grounds" available during reexamination are expressly limited by statute and PTO procedure.

As mentioned above, claims in an *inter partes* reexamination are examined only "on the basis of patents or printed publications."[7] A requester during reexamination, however, may only apply a printed publication under appropriate portions of 35 U.S.C. 102 (anticipation)[8] and/or under 35 U.S.C. 103 (obviousness). For example, PTO procedures specify that "a prior art patent or printed publication *cannot* be properly applied as a ground for reexamination if it is merely used as evidence of alleged *prior public use* or *on sale* [under 35 U.S.C. 102(b)]."[9] Issues other than those specifically provided for by statute "will not be resolved in an *inter partes* reexamination."[10]

Based on the foregoing, arguments using patents and printed publications as evidence of public use or prior sales are grounds that the requester could *not* have raised during reexamination. As such, those arguments are not subject to Section 315(c) estoppel. Accordingly, a requester should be able to submit, in an *inter partes* reexamination request, patents or printed publications that happen to describe a product, and not be precluded from relying in later litigation on those same documents as evidence of public use or prior sales. However, one caveat is that, if the examiner in the reexamination found some claims patentable, the finder of fact in litigation may consider this finding a highly persuasive reason to do the same, regardless of the particular legal basis upon which the requester applies the evidence.[11]

Art used in combination with previously submitted publications

Even when a prior art reference itself falls within the scope of Section 315(c) estoppel, one may be able to use the same evidence in subsequent litigation, provided it is combined with art that could not have been considered during reexamination. As described above, Section 315(c) limits estoppel to arguments or grounds that "could have been raised" at the time of reexamination. If known publications are combined with prior art that was

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off-limits during reexamination, the new combination of prior art arguably "could not have been raised" and thus should not be estopped.

This argument was successfully made in a recent district court case, *ACCO Brands*.[12] The defendant had previously initiated an *inter partes* reexamination citing thirteen combinations of prior art. During litigation, the defendant asserted invalidity over previously cited art in combination with a prior art physical product.[13] The court found that "estoppel does not apply to the grounds for invalidity based on prior art that was not and could not have been before the PTO [during reexamination]."[14]

Even though *ACCO Brands* found no estoppel, the court was "not convinced that defendant could not, somehow, have gotten the [prior art product] information to the PTO had it actually wanted to."[15] *Inter partes* reexamination was relatively new at the time of the court's decision. The court was lenient apparently because of the uncertainty surrounding the estoppel issue for this new statutory creation. The court's commentary may serve as a warning to the third-party requester to diligently search for prior art and exhaustively pursue invalidity arguments in its request for *inter partes* reexamination.

Prior art that is "newly discovered"

As described above, Section 315(c) estoppel "does not prevent the assertion of invalidity based on *newly discovered* prior art *unavailable to the third-party requester and the Patent and Trademark Office* at the time of the *inter partes* reexamination proceedings." Clearly, if a party was actually aware of a prior art reference, but did not submit it in the reexamination, then the prior art cannot be characterized as "newly discovered." In fact, congressional committee reports from the time of Section 315(c)'s enactment indicate that prior art would be considered "unavailable" to the third-party requester only where the third-party requester did not have actual knowledge of the prior art.[16]

Nonetheless, it might not be advisable for a party to practice a "willful blindness" approach in an attempt to reduce its exposure to prior art it is "aware of." The current PTO position on the meaning of "could have been raised" states: "The question of whether an issue could have been raised must be decided on a case-by-case-basis, evaluating all the facts and circumstances of each individual situation."[17] Moreover, the PTO notes that "[t]he statute thus leaves open whether prior art that was not discovered in a search performed by the third party will be deemed prior art that was 'unavailable' or 'not known' or if the 'unavailable' standard only applies to prior art that was *not published* at the time the *inter partes* reexamination request was filed."[18] In view of the PTO's statements, a court applying a broad interpretation of the phrase "could have been raised" may preclude the defendant from using prior art references that it could have discovered had it performed, for example, a diligent search for prior art.

The issue of imputed knowledge also arises from Section 315(c)'s recital that estoppel does not apply if the "newly discovered prior art [is] *unavailable to the third-party requester and the Patent and Trademark Office* at the time of the *inter partes* reexamination proceedings." According to legislative history, the awareness of prior art should only be tested against "*individuals* who were involved in the reexamination proceeding on behalf of the third party requester and the USPTO."[19] In light of the legislative history, courts should require, at the very least, that an individual involved in the *inter partes* reexamination proceeding have had some exposure to the reference at a relevant point in time. Mere possession of the reference by either an employee of the third party requester or the Patent

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Office who was not involved in the reexamination, should not, alone, be sufficient to show that the reference "could have been raised." That said, however, it is still unclear how a third party requester would be able to determine the extent of prior art known *to the examiner* at the time of reexamination. Again, it appears advisable for a potential requester to conduct a diligent prior art search to mitigate the risk that a court may preclude the use of art discovered after initiation of an *inter partes* reexamination.

CONCLUSION

The risks of *inter partes* estoppel can be mitigated if a party understands the scope of Section 315(c). For example, the statute by its own terms does not apply until the patentability of the claim is "finally decided" in the *inter partes* reexamination. Especially in the absence of a stay, the third party requester may be able to gauge whether the related litigation may end before any estoppel could take effect.

Moreover, as discussed above, there are several classes of prior art that may nevertheless be preserved once the reexamination has been finally decided. Specifically, grounds of invalidity that "could not have been raised" in the *inter partes* reexamination proceeding can still be advanced in later litigation. The impact of Section 315(c) estoppel may also be reduced if a prior art reference has a "dual use" as both a ground of invalidity in reexamination (*i.e.*, as a patent or printed publication) and as evidence of an alternate ground of invalidity, such as prior public use or prior sale.

Mindful of these considerations, the benefits of *inter partes* reexamination may outweigh the potential risk of estoppel attaching in litigation. In particular, one should keep in mind the essential advantage of *inter partes* reexamination—participation by the requester in the prosecution. This may explain recent statistics that show that all claims are cancelled or at least some changed in approximately 95% of *inter partes* reexaminations, compared to 75% of *ex parte* reexaminations.[20] ■

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[1] United States Patent and Trademark Office Report To Congress on *Inter Partes* Reexamination at: http://www.uspto.gov/web/offices/dcom/olia/reports/reexam_report.htm.

[2] United States Patent and Trademark Office Report To Congress on *Inter Partes* Reexamination at: http://www.uspto.gov/web/offices/dcom/olia/reports/reexam_report.htm.

[3] 35 U.S.C. 315(c) (emphasis added).

[4] *Id.* (emphasis added).

[5] Based on the legislative history, it appears that "finally determined" may be interpreted to mean after all appeals, if any, have been exhausted. *See, e.g.*, Conference Report on HR 1554, 145 Cong. Rec. H11769, H11805 (Nov. 9, 1999) (addressing both Section 315 and section 317); *see also* United States Patent and Trademark Office Report To Congress on *Inter Partes* Reexamination at: http://www.uspto.gov/web/offices/dcom/olia/reports/reexam_report.htm (May 23, 2000). *See also*, Matthew A. Smith, *Inter Partes Reexamination*, Ed. 1E, 35-36 (Jan. 31, 2009) (examining "final" language in the legislative histories of Sections 315(c) and 317(b)) *citing* Conference Report on HR 1554, 145 Cong. Rec. H11769, H11805 (Nov. 9, 1999).

[6] *See* U.S. Patent and Trademark Office, *Inter Partes* Reexamination Filing Data (June 30, 2009).

[7] 37 C.F.R. § 1.906(a).

[8] MPEP 2617 ("Other matters, such as public use or sale [under 35 U.S.C. 102(b)], inventorship, 35 U.S.C. 101, 35 U.S.C. 112, fraud, etc., will not be considered . . . and should not be presented in the request."); *see also* 35 U.S.C. § 102(b) ("the invention was patented or described in a printed publication in this or a foreign country ***or*** in public use or on sale in this country, more than one year prior to the date of the application for patent in the United States.") (emphasis added).

[9] MPEP 2617 (emphasis added); *see also* United States Patent and Trademark Office Report To Congress on *Inter Partes* Reexamination at: http://www.uspto.gov/web/offices/dcom/olia/reports/reexam_report.htm ("A reexamination requester's challenge to a patent is limited to prior art patents and printed publications. Other validity-related questions, such as operability, enablement, written description, and prior use or sale are not available for challenging the existing patent claims in *inter partes (or ex parte)* reexamination proceedings.").

[10] 37 C.F.R. § 1.906(c).

[11] *See Roger Shang and Yar Chaikovosky*, "*Inter Partes* Reexamination of Patents: An Empirical Evaluation," 15 *Tex. Intell. Prop. L.J.* 1, 19 (2006).

[12] *ACCO Brands, Inc. v. PC Guardian Anti-Theft Prods.*, 592 F. Supp 2d 1208, 1217 (N.D. Cal. 2008).

[13] *Id.* at 1217.

[14] *Id.*

[15] *Id.* at 1218, n 4.

[16] *See* Conference Report on HR 1554, 145 Cong. Rec. H11769, H11805 (Nov. 9, 1999) ("Prior art was unavailable at the time of the *inter partes* reexamination *if it was not known* to the individuals who were involved in the reexamination proceeding on behalf of the third-party requester and the US Patent Office.") (emphasis added).

[17] United States Patent and Trademark Office Report To Congress on *Inter Partes* Reexamination at: http://www.uspto.gov/web/offices/dcom/olia/reports/reexam_report.htm, quoting *Official Gazette* 1234:97 (May 23, 2000).

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[18] United States Patent and Trademark Office Report To Congress on *Inter Partes* Reexamination at: http://www.uspto.gov/web/offices/dcom/olia/reports/reexam_report.htm (emphasis added).

[19] Conference Report on HR 1554, 145 Cong. Rec. H11769, H11805 (Nov. 9, 1999) (emphasis added).

[20] U.S. Patent and Trademark Office, *Inter Partes* Reexamination Filing Data (June 30, 2009); *Ex Parte* Reexamination Filing Data (March 31, 2009).

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Morrison & Foerster maintains one of the largest and most active intellectual property practices in the world. The IP practice provides the full spectrum of IP services, including litigation and alternative dispute resolution, representation in patent and trademark prosecution, and business and licensing transactions. Morrison & Foerster's IP practice has the distinguishing ability to efficiently and effectively handle issues of any complexity, in any venue, involving any technology. For more information about the IP practice, please visit www.mofo.com.

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- David Doyle
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- John Delaney
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- Vivian Hanson
- Paul Jahn
- Julian Millstein
- William Schwartz

NEW PUBLICATION LAUNCHED

Earlier this summer, the firm launched a new magazine called ***MoFo Tech***. This semi-annual publication explores major trends and issues facing science and technology-based companies. Click **here** to view an electronic version of the summer 2009 issue. Please email us at info@mofo.com if you would like to receive the magazine. ■