

DEVELOPMENTS IN INTELLECTUAL PROPERTY LAW

CHRISTOPHER A. BROWN*

Over the survey period, cases have come down which are both high-profile and of practical value to Indiana legal practitioners and those concerned with technology development. A summary and analytical review of these developments is provided, which will assist lawyers, inventors, technology managers, and others concerned with protection of intellectual property.

I. WHAT IS POTENTIALLY PATENTABLE: *BILSKI*

The most anticipated and awaited ruling for patent practitioners during the survey period was one of the last opinions issued by the U.S. Supreme Court in its 2009 term. In *Bilski v. Kappos*,¹ the Court faced squarely the issue of what types of subject matter were appropriate for consideration for a patent grant. In cases where the inventive “stuff” is a product, machine, or composition of matter, that question practically never arises.² Those types of matter are usually particularized to a specific use or structure, and so are easily considered in terms of the range of items they encompass. Such subject matter generally straightforwardly passes the initial test of whether to consider it and moves on to the substantive questions of whether it is new, useful and unobvious in view of the prior art.

Many methods or processes are likewise plainly within the subject matter appropriate for consideration for patent protection. Methods of making or using a product—or a method of using a machine, for example—are unquestionably suitable for a patent application.³ However, the statute provides only that a “process” may be considered for protection, and inventors have attempted to obtain protection for processes that are less connected or unconnected to particular structures or actions. Supreme Court precedent identifies exceptions to the broad consideration of anything that might be termed a “method.”⁴ Regardless of the broad nature of what can be patented under the statute, one cannot patent “laws of nature, physical phenomena, and abstract ideas,”⁵ exceptions that “have defined the reach of the statute as a matter of statutory *stare*

* Partner, Woodard, Emhardt, Moriarty, McNett & Henry LLP, Indianapolis; Adjunct Professor, Indiana University School of Law—Indianapolis. J.D., *summa cum laude*, 1996, Indiana University School of Law—Indianapolis.

1. 130 S. Ct. 3218 (2010).

2. “Whoever invents or discovers any new and useful *process, machine, manufacture, or composition of matter*, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title.” 35 U.S.C. § 101 (2006) (emphasis added). “In choosing such expansive terms [as processes, machines, manufactures and compositions of matter] . . . modified by the comprehensive ‘any,’ Congress plainly contemplated that the patent laws would be given wide scope.” *Diamond v. Chakrabarty*, 447 U.S. 303, 308 (1980).

3. *See* 35 U.S.C. § 100.

4. *Bilski*, 130 S. Ct. at 3225.

5. *Id.* (quoting *Chakrabarty*, 447 U.S. at 309).

decisis going back 150 years.”⁶

The patent application filed by inventors Bernard Bilski and Rand Warsaw brought the conflict between a broad sweep of potentially patentable subject matter and the established view that abstract ideas should be free to all to a head. The subject matter of the Bilski patent application was a method of hedging risk in commodity transactions, and the author discussed development of the application through the Patent and Trademark Office (PTO) and the appellate process in a previous article.⁷ To summarize, the Federal Circuit Court of Appeals distilled a test for determining whether a process is appropriate subject matter for patent consideration: it must be “tied to a particular machine or apparatus” or must “transform[] a particular article into a different state or thing.”⁸ Applying that test, the court determined that the inventors’ claimed processes were not patentable because they fit neither prong of the test.⁹ The terms of the involved claims did not include a particular machine, and the court saw the claimed processes as not operating on any articles, but merely concerned obligations or risk. The court left open the question of whether an operation on data (i.e., the electrons or “1s” and “0s” that form electronic data storage) would qualify, but such was not the situation in the Bilski application.¹⁰

The Supreme Court granted certiorari prior to the survey period and heard arguments on November 9, 2009. As previously noted, practically the entire Court term passed before its opinion was rendered in late June 2010. That opinion, while rejecting the Federal Circuit’s bright-line “machine-or-transformation” test, nonetheless affirmed the result that the process claims at issue were not eligible for patent consideration.¹¹

After reviewing the statute and the exceptions as noted above, the Court specifically noted that the question presented was merely a “threshold test” for claimed subject matter.¹² Whether it is clear or not that subject matter is a proper “product” or “process” for patent consideration, once that determination is made, the claims must still pass the substantive patentability requirements contained in the statute, such as novelty,¹³ non-obviousness,¹⁴ and proper disclosure.¹⁵ In the author’s view, this language at the front of the opinion informs and colors the remainder of the Court’s opinion. As the Court discusses what the proper analytical considerations are for determining whether the threshold test is met, the opinion has in the back of its mind that regardless of the outcome on that

6. *Id.* (citing *Le Roy v. Tatham*, 55 U.S. (1 How.) 156, 174-75 (1852)).

7. Christopher A. Brown, *Developments in Intellectual Property Law*, 43 IND. L. REV. 837, 837-44 (2010).

8. *In re Bilski*, 545 F.3d 943, 954 (Fed. Cir. 2008); see also Brown, *supra* note 7, at 839.

9. *Bilski*, 545 F.3d at 963.

10. *Id.*

11. *Bilski*, 130 S. Ct. at 3226, 3231.

12. *Id.* at 3225.

13. 35 U.S.C. § 102 (2006).

14. *Id.* § 103.

15. *Id.* § 112.

question, there are still the weighty questions of substantive patentability the claims must overcome. Thus, even if a decision to allow a process claim to proceed through the PTO is incorrect, there are other conditions that may prevent issuance of that claim in a patent.

The Court rejected two theories it called “categorical limitations” on what is an appropriate process for patent consideration.¹⁶ Turning first to the Federal Circuit’s machine-or-transformation test, the Court found that the test contravened its statements on statutory interpretation. Noting particularly that its own case law interpreting terms in the Patent Act does not “give[] the [j]udiciary *carte blanche* to impose other limitations that are inconsistent with the text and the statute’s purpose and design,”¹⁷ the Court saw no common or ordinary meaning of “process” that would invoke the machine-or-transformation test.¹⁸ Reviewing the precedent that led the Federal Circuit to its test, the Court took instead the view that the connection of a process to a machine or transformation “is a useful and important clue, an investigative tool” for the question of whether the process is eligible for consideration, but it is not the sole test.¹⁹ The Court reflected further on that view, saying that such machine-or-transformation connections may have previously been important in the analysis based on the technological developments under consideration in the nineteenth and most of the twentieth centuries. However, application of such a test in emerging technologies may “risk obscuring the larger object of securing patents for valuable inventions without transgressing the public domain,” and so “new technologies may call for new inquiries.”²⁰ Whether a process can qualify for patent protection should not, in the Court’s analysis, be necessarily determined by considerations that have been useful in the past.

The second theory proposed to limit the scope of proper “processes” under the statute was to eliminate protection for business methods. The Court also rejected this theory, saying that “at least as a textual matter,” the statutory term “process” can include business methods.²¹ Beyond the direct text of Section 101, the Court noted other portions of the statute that “explicitly contemplate[] the existence of . . . business method patents.”²² Denying the eligibility of business methods for patent protection would abrogate such statutory provisions. A limiting principle that tied unpatentable business methods to abstract ideas might be useful and harmonious with precedent, and “special problems” that might arise in considering such claims can be dealt with via appropriate application of novelty, non-obviousness and other substantive requirements for patent

16. *Bilski*, 130 S. Ct. at 3225-28.

17. *Id.* at 3226.

18. *Id.* at 3226-27.

19. *Id.* at 3227.

20. *Id.* at 3227-28.

21. *Id.* at 3228 (“The Court is unaware of any argument that the ‘ordinary, contemporary, common meaning’ . . . of ‘method’ excludes business methods.” (internal citation omitted)).

22. *Id.* (citing 35 U.S.C. § 273(a)(3) (2006) (providing a “prior use” defense to infringement allegations involving “a method of doing or conducting business”)).

protection.²³ Beyond that, business methods are considerable for patent protection along with other types of methods.

Thus, the Court dispensed with the Federal Circuit's machine-or-transformation test as well as the suggestion that business methods should not be eligible *ab initio*. What was left was the broad interpretation of "process" from the statute, the exceptions stated by the Court and noted above, and the precedent²⁴ which the Federal Circuit attempted to distill into a black-letter test. Taking these items in hand, the Court analyzed the claims at issue and determined that they do not express a proper "process" under the statute.²⁵ The risk-hedging identified in one claim is a concept well-known to commercial enterprise, and the formula of a dependent claim is merely an algorithm or abstract idea.²⁶ Other claims limit these ideas to particular markets, which the Court characterized as "adding token postsolution components" that do not result in eligible subject matter.²⁷

The *Bilski* opinion is disappointing to those who would prefer more certainty in this area of patent law. A bright-line test that even the Court itself noted is useful in many cases and in many technological areas was rejected. Further, while noting some of the difficulties in analyzing business methods, they remain eligible in the broad sense for patent protection. They must be analyzed case-by-case to determine whether they are merely abstract ideas or another exception to the general eligibility of methods. The law is essentially back to its state prior to the Federal Circuit's *Bilski* opinion, requiring the PTO and courts to review process claims carefully to see whether they are nothing more than laws of nature, physical phenomena, or abstract ideas. If there is something more than just such a law, phenomenon or idea, and that "something" is more than a mere application to a particular field or other "token postsolution activity," then the rest of the requirements for a patent can be reached.

For those that prefer a more fluid environment for considering patentability issues, the Court's opinion is clearly more palatable than the Federal Circuit's test. However, the Court has not given a blanket approval to consideration of all methods. The existing exceptions, noted above, are to be considered, and the Court appeared perfectly happy to accept evidence of a method meeting the machine-or-transformation test to indicate potential eligibility for a patent. It simply rejected the idea that this test is the only test to be considered. It is likely that the test will remain an important (if not *the* most important) criterion for determining whether a process claim is proper for consideration. Nonetheless,

23. *Id.* at 3229.

24. These precedential decisions include *Diamond v. Diehr*, 450 U.S. 175 (1981), *Parker v. Flook*, 437 U.S. 584 (1978), and *Gottschalk v. Benson*, 409 U.S. 63 (1972), all of which are referred to in the respective *Bilski* decisions of the Supreme Court and the Federal Circuit. *Bilski*, 130 S. Ct. at 3229-31; *In re Bilski*, 545 F.3d 943, 952-56 (Fed. Cir. 2008); *see also* Brown, *supra* note 7, at 839-40.

25. *Bilski*, 130 S. Ct. at 3231.

26. *Id.*

27. *Id.* (citing *Flook*, 473 U.S. at 590).

creative arguments for eligibility of a process that do not rely merely on a machine or the transformation of an article are permissible, and they may begin a transformation of Patent and Trademark Office (PTO) and judicial views on the subject.

II. DUTY OF CANDOR TO THE PTO: *THERASENSE*

Another important patent case for Indiana practitioners and corporate employees or officers involved in obtaining patents is *Therasense, Inc. v. Becton, Dickinson & Co.*²⁸ In *Therasense*, the Federal Circuit reviewed a lower court decision finding a patent unenforceable for inequitable conduct in procuring the patent.²⁹

The technology in question in *Therasense* concerned blood glucose testing for use by those suffering from diabetes or those involved in their care.³⁰ Therasense had accused Becton Dickinson and Company (“Becton”) of infringement of several patents via sales of the latter’s glucose test strip. Following a summary judgment relating to some of the claims, the district court conducted a bench trial on the rest. Out of the bench trial came a ruling that one of the patents was not enforceable because of inequitable conduct in failing to disclose material statements made during a proceeding in the European Patent Office (EPO) concerning a counterpart patent.³¹

On appeal, the Federal Circuit took pains to observe that the standard for a finding of inequitable conduct must remain high in view of the severe penalty of rendering an entire patent unenforceable.³² In the court’s words, the inequity is comparable between one who obtains a patent “through deliberate misrepresentations or omissions of material information . . . [and] to strike down an entire patent where the patentee only committed minor missteps or acted with minimal culpability or in good faith.”³³ Having briefly noted the requirements for at least a threshold level of materiality of a misrepresentation or omission and intent to mislead on the part of the relevant person, the court considered this matter to be “one of those rare cases in which a finding of inequitable conduct is appropriate, particularly in light of the critical nature of the representations to the PTO in securing allowance” of the patent in question.³⁴

The ruling arose out of inconsistencies between information given to the PTO to secure the patent in question and information given to the EPO regarding a

28. 593 F.3d 1289 (Fed. Cir.), *reh’g en banc granted, opinion vacated*, Nos. 2008-1511 to -14 and 2008-1595, 2010 WL 1655391 (Fed. Cir. Apr. 26, 2010), *reinstated in part* by Nos. 2008-1511 to -14 and 2008-1595, 2011 WL 2028255 (Fed. Cir. May 25, 2011).

29. *Id.* at 1291.

30. *Id.* at 1293.

31. *Id.*

32. *Id.* at 1300.

33. *Id.* (quoting *Star Scientific, Inc. v. R.J. Reynolds Tobacco Co.*, 537 F.3d 1357, 1366 (Fed. Cir. 2008)).

34. *Id.*

counterpart patent.³⁵ Before the PTO, the attorney prosecuting the patent and his client's director of research and development discussed strategies for obtaining protection after years of rejections. The result was a series of claims to a sensor that did not require a protective membrane, coupled with arguments to the examiner that references required a membrane in the particular environment of interest.³⁶ The director of research and development provided a declaration asserting that one of ordinary skill would understand that such a membrane would have been necessary according to the state of knowledge at the effective filing date of the application. The attorney followed up with statements in the record relying on the director's declaration and asserting that the optional membrane of his claims was not shown or suggested in the prior art. He further argued that the person of ordinary skill would understand the language "optionally, but preferably" in the claims to be "mere patent phraseology" rather than as a "technical teaching."³⁷ After those filings, the PTO allowed the claims.³⁸

In the EPO, the patentee's patent with a "virtually identical specification[]" was revoked over a reference that the patentee had tried to distinguish.³⁹ In the revocation proceeding, the reference showed a semipermeable membrane with a glucose sensor, and the patentee's counsel took the position that its optional membrane had a particular use (to trap or block coarse particles during use) and that the language was technologically quite clear. These statements were not provided to the PTO for consideration during the examination of the counterpart U.S. application. The district court found that these statements to the EPO directly contradicted statements to the PTO in the counterpart application in two particular ways.⁴⁰ First, the statements to the EPO gave a "clear" meaning for the "optionally" language, while the arguments to the PTO called that language mere "patent phraseology."⁴¹ Second, the documents provided in the EPO revocation proceeding tended to show that a membrane was not necessary for testing in the environment considered in the PTO examination.⁴²

The Federal Circuit agreed that the statements made to the EPO contradicted those made to the PTO.⁴³ In doing so, it distinguished the case of *Scanner Technologies Corp. v. ICOS Vision Systems Corp.*⁴⁴ Where the *Scanner Technologies* case considered that a number of inferences could reasonably be drawn from the patentee's representations and at least one was favorable to the patentee,⁴⁵ the present case in the majority's view included direct inconsistencies

35. *Id.* at 1301-03.

36. *Id.* at 1301.

37. *Id.* at 1301-02 (emphasis removed).

38. *Id.* at 1302.

39. *Id.*

40. *Id.* at 1303.

41. *Id.*

42. *Id.*

43. *Id.* at 1303-04.

44. 528 F.3d 1365 (Fed. Cir. 2008).

45. *Id.* at 1376.

in the positions taken before the PTO and EPO on the same subject.⁴⁶ In that context, the lack of disclosure of the EPO statements to the PTO was clearly a material omission, so much so that a contrary conclusion would “eviscerate the duty of disclosure”⁴⁷ placed on attorneys and others involved in patent prosecution.⁴⁸ While courts have considered mere attorney argument not to be binding in and of itself, the Federal Circuit in this case noted that such cases have not addressed the relevant context where argument respecting one application has contradicted argument in a related or counterpart application or patent and was withheld from the PTO. The fact that some of the information provided to the PTO was in evidentiary form, like an affidavit or declaration, further distinguished this case from those earlier cases that dealt only with attorney argument.⁴⁹

Turning to the intent prong of the analysis, the court examined five findings made by the district court:

(1) that the statements made to the PTO concerning the prior art . . . were absolutely critical in overcoming the examiner’s earlier rejections of the [patentee’s] claims . . . (2) that the EPO statements would have been very important to an examiner because they contradicted the representations made to the PTO; (3) that [the attorney and the director of research and development] . . . both knew of the EPO statements and consciously withheld them from the PTO; (4) that neither . . . provided a credible explanation for failing to submit the EPO documents to the PTO; and (5) that [their] . . . explanations for withholding the EPO documents were so incredible that they suggested intent to deceive.⁵⁰

Items one through three were either undisputed or were supported by evidence, and items four and five depended on witness credibility and thus were essentially unreviewable. The court also rejected the argument on appeal that the director of research and development lacked intent to deceive the PTO by providing the information submitted to the EPO to the attorney prosecuting the U.S. application. The court explained that “[t]his court has in the past expected more of declarants before the PTO [I]t was [the director’s] duty to avoid intentional deception in his declaration before the PTO, and merely disclosing the EPO documents to [the attorney] . . . did not obviate that duty.”⁵¹

Perhaps the first lesson to be drawn from *Therasense* comes from the signals within the opinion that inequitable conduct should be a rare incident. For many years now, the Federal Circuit has indicated that unjustified allegations of

46. *Therasense*, 593 F.3d at 1304.

47. *Id.* at 1305.

48. See 37 C.F.R. § 1.56 (2011). Where there is a question as to whether information is material, “a patent application should err on the side of disclosure.” *LNP Eng’g Plastics, Inc. v. Miller Waste Mills, Inc.*, 275 F.3d 1347, 1361 (Fed. Cir. 2001).

49. *Therasense*, 593 F.3d at 1305.

50. *Id.* at 1306.

51. *Id.* at 1307-08.

inequitable conduct are a “plague” on patent litigation,⁵² attempting to elevate to a destroying level errors or good faith judgments that were in fact incorrect. Case law has tried to ameliorate that trend by requiring a standard of pleading for inequitable conduct similar or identical to that for fraud under the Federal Rules of Civil Procedure.⁵³ The *Therasense* court makes it very plain that findings of inequitable conduct should be an unusual incident, for those cases (like *Therasense*) in which apparent evidence of contradictory statements or other misrepresentations or omissions vital to the examination of the patented subject matter is available. Its language comparing the inequity in an inappropriate finding of unenforceability to that of obtaining patent rights through material misrepresentation or omission is a strong hint from the Federal Circuit to the district courts that assertions of inequitable conduct must be closely scrutinized and rarely accepted. Errors or good-faith, reasonable decisions are not “inequitable conduct”; that label and its consequences must be reserved for deliberate misrepresentations or similar activity.

Therasense also reminds the patent practitioner that it is not only the attorney or agent prosecuting an application, but also others involved in the patenting process. The rules of practice in patent cases provide that

Each individual associated with the filing and prosecution of a patent application has a duty of candor and good faith in dealing with the [PTO] . . . which includes a duty to disclose to the . . . [PTO] all information known to that individual to be material to patentability Individuals associated with the filing or prosecution of a patent application within the meaning of this section are: (1) Each inventor named in the application; (2) Each attorney or agent who prepares or prosecutes the application; and (3) Every other person who is substantively involved in the preparation or prosecution of the application and who is associated with the inventor, with the assignee or with anyone to whom there is an obligation to assign the application.⁵⁴

The first two categories of “associated individuals” are not surprising and are generally not difficult to handle. The attorney should know his or her duties, and in his or her contact with the inventors in preparing and prosecuting the application can request material information from the inventors and advise them regarding their duty of disclosure. The last category is frequently more difficult to address, at least insofar as the attorney may not know immediately what “other” persons may be substantively involved with the preparation or prosecution of the application. The director of research and development who prepared a declaration in the *Therasense* case is very clearly someone in the third category, and his duty of candor is separate from that of the attorney in the case.

52. See, e.g., *Molins PLC v. Textron Inc.*, 48 F.3d 1172, 1182 (Fed Cir. 1995); *Burlington Indus., Inc. v. Dayco Corp.*, 849 F.2d 1418, 1422 (Fed. Cir. 1988).

53. See, e.g., *Pressure Prods. Med. Supplies Inc. v. Greatbatch Ltd.*, 599 F.3d 1308, 1320 (Fed. Cir. 2010).

54. 37 C.F.R. §§ 1.56(a), (c) (2011).

The *Therasense* opinion provides, in the author's view, a glimpse into the current views of the Federal Circuit regarding treatment of inequitable conduct questions. To that extent, it is an important case following on from opinions such as *McKesson Information Solutions, Inc. v. Bridge Medical, Inc.*⁵⁵ and should be reviewed. Nevertheless, the Federal Circuit vacated the *Therasense* opinion on April 26, 2010 as part of its order granting rehearing en banc.⁵⁶ The order provided that the appeal would be decided based on prior briefing as well as new briefing dedicated to the following questions:

1. Should the materiality-intent-balancing framework for inequitable conduct be modified or replaced?
2. If so, how? In particular, should the standard be tied directly to fraud or unclean hands? If so, what is the appropriate standard for fraud or unclean hands?
3. What is the proper standard for materiality? What role should the United States Patent and Trademark Office's rules play in defining materiality? Should a finding of materiality require that but for the alleged misconduct, one or more claims would not have issued?
4. Under what circumstances is it proper to infer intent from materiality?
5. Should the balancing inquiry (balancing materiality and intent) be abandoned?
6. Whether the standards for materiality and intent in other federal agency contexts or at common law shed light on the appropriate standards to be applied in the patent context.⁵⁷

As these questions demonstrate, fundamental premises involved in the treatment of inequitable conduct or "fraud on the PTO" are being put forward for discussion. It may be that the Federal Circuit wishes to have an en banc opportunity to solidify prior inequitable conduct law. It may also be the case that the court views this case as an opportunity to renovate the law in this area. The facts of the *Therasense* case, at least if one agrees with the findings of the district court and the panel majority at the Federal Circuit, would appear not to favor a basic reworking of principles of inequitable conduct. After all, filing statements in one patent office that are contradictory to those filed in the PTO would seem to be very much what the law of inequitable conduct is designed to deter, regardless of how one formulates the principles. Certainly the en banc treatment of this case was highly anticipated, and this author notes that it was issued in the summer of 2011.⁵⁸

55. 487 F.3d 897 (Fed. Cir. 2007).

56. *Therasense, Inc. v. Becton, Dickinson & Co.*, Nos. 2008-1511 to -14 and 2008-1595, 2010 WL 1655391 (Fed. Cir. Apr. 26, 2010).

57. *Id.* at *1 (internal citations omitted).

58. Nos. 2008-1511 to -14 and 2008-1595, 2011 WL 2028255 (Fed. Cir. May 25, 2011).

III. PATENT TERM ADJUSTMENTS: *WYETH*

In 1995, as part of the changes to patent practice involved in the Uruguay Round Agreements Act, the term of a United States patent was changed. Prior to the change, a patent's term was seventeen years from the date of issuance, assuming all maintenance fees were paid. The change gave patents having a filing date on or after June 8, 1995 a term of twenty years from the filing date.⁵⁹ To meet criticisms that the change shortened the term of patent that required more than three years for examination, term guarantees were enacted.⁶⁰ The guarantees provided for an extension of the patent term that would account for delays occasioned by the PTO during examination. In short, a patentee receives an extra day of patent term for each day of delay in responses from the PTO—for example, for a delay over fourteen months in providing a first action on the merits or over 4 months in responding to an applicant's filing or appeal⁶¹—and an extra day for each day over three years of total pendency of the application,⁶² but one does not double-count those totals.⁶³ Additional days for delay due to interference, secrecy orders, or appeals are also provided.⁶⁴ The patentee loses a day of those adjustments for each day of his or her delay beyond established response periods.⁶⁵ The PTO created a system for performing these calculations, provides to patentees a form announcing any such term extension, and prints the number of days of such extension on the face of the issued patent.

In *Wyeth v. Kappos*, that system for calculating extensions for delay in the PTO was under scrutiny, and the Federal Circuit decided that the PTO had been miscalculating term extension to the detriment of patentees.⁶⁶ The pharmaceutical giant Wyeth had received a patent and petitioned the PTO to reconsider the extension it had indicated on the patent.⁶⁷ When unsuccessful, Wyeth filed suit in the District of Columbia federal court, and the court vindicated its argument that the PTO had been undercalculating the extension.

On appeal, the Federal Circuit upheld the district court's decision.⁶⁸ In practice, the PTO had been calculating the extension due to response delay (the "A period") and the extension due to a total pendency over three years (the "B period") and awarding the larger of the two, asserting that by doing so, it accounted for any overlap between the periods.⁶⁹ The court, however, relied on the statutory language to note that "overlap" cannot happen "unless the violations

59. 35 U.S.C. § 154(a)(2) (2006).

60. *Id.* § 154(b)(1).

61. *Id.* § 154(b)(1)(A).

62. *Id.* § 154(b)(1)(B).

63. *Id.* § 154(b)(2)(A).

64. *Id.* § 154(b)(1)(C).

65. *Id.* § 154(b)(2)(C).

66. *Wyeth v. Kappos*, 591 F.3d 1364, 1372 (Fed. Cir. 2010).

67. *Id.* at 1368-69.

68. *Id.* at 1372.

69. *Id.* at 1368.

occur at the same time.”⁷⁰ That is, the PTO’s system did not accord with the statute because of its view that the B period

can occur *anytime* after the application is filed. To the contrary, the language of section 154(b) does not even permit B delay to start running until three years *after* the application is filed. . . . “The problem with the PTO’s interpretation is that it considers the application *delayed* under the [B guarantee] during the period before *it has delayed*.”⁷¹

The court provided additional bases for rejecting the PTO’s method of calculation in finding for Wyeth.

The result is that the calculation of patent term extension for delay in the PTO must start with the A period that exists prior to the date three years from the patent’s filing date. To that is added any B period for delay beyond that three-year-from-filing period, since those two periods cannot by definition overlap. Any additional response-related delay (A period) that occurs after the three-year-from-filing date would presumably overlap with the ongoing B period delay. Practitioners should accordingly bear in mind as they are reviewing patents for their clients that the extension indicated on the face of a patent may not be accurate.

IV. FALSE MARKING: *FOREST GROUP* AND *PEQUIGNOT*

The Federal Circuit also took a new view of the false marking statute in *Forest Group Inc. v. Bon Tool Co.*⁷² In a precedent-overturning case, the court put new teeth in the provision that deters placing an unmerited indication of patent protection on a product.⁷³

The Patent Act provides a remedy against one who

marks upon, or affixes to, or uses in advertising in connection with anything made, used, offered for sale, or sold by such person within the United States, or imported by the person into the United States, the name or any imitation of the name of the patentee, the patent number, or the words “patent,” “patentee,” or the like, with the intent of counterfeiting or imitating the mark of the patentee, or of deceiving the public and inducing them to believe that the thing was made, offered for sale, sold, or imported into the United States by or with the consent of the patentee; or

[w]hoever marks upon, or affixes to, or uses in advertising in connection with any unpatented article, the word “patent” or any word or number importing that the same is patented, for the purpose of deceiving the public; or

70. *Id.* at 1369.

71. *Id.* at 1370 (citation omitted).

72. 590 F.3d 1295 (Fed. Cir. 2009).

73. *Id.* at 1304-05.

[w]hoever marks upon, or affixes to, or uses in advertising in connection with any article, the words "patent applied for," "patent pending," or any word importing that an application for patent has been made, when no application for patent has been made, or if made, is not pending, for the purpose of deceiving the public⁷⁴

The guilty party is fined "not more than \$500 for every such offense,"⁷⁵ with half going to the one suing and half to the United States.⁷⁶ In *Forest Group*, the defendant had counterclaimed under this statute.⁷⁷ The district court found that the plaintiff had been falsely marking its products after a particular date and had been awarded \$500 for one offense.⁷⁸

The Federal Circuit found that the lower court's findings on the substance of the offense were not clearly erroneous, and the court allowed the offense to stand.⁷⁹ On the question of damages, the defendant argued that the potential \$500 penalty applied to each instance of false marking (i.e., each product), not to a single continuous false marking offense.⁸⁰ The Federal Circuit noted a past case that held that continuous false marking was a single offense,⁸¹ but it also noted that the statute involved in that case provided a \$100 *minimum* fine for false marking. The change from a minimum fine to a maximum fine as in the current statute occurred in 1952, but several later cases continued to levy a single-offense penalty for continuous false marking.⁸²

Overruling these later cases, the court found that they did not accord with the language of the statute. Instead, both the language and the policy behind the statute showed that the penalty should be levied on a per-article basis.⁸³ The policy reasoning provided by the court focused on the potential for false marking to drive competitors or innovators away from an unpatented product for fear they may trespass on patent rights. The court explained, "False marking can also cause unnecessary investment in design around or costs incurred to analyze the validity or enforceability of a patent whose number has been marked upon a product with which a competitor would like to compete."⁸⁴ With that per-article requirement, however, goes the discretion inherent in the maximum of the fine. A trial court may levy a fine appropriate to the particular case before it:

The statute provides a fine of "not more than \$500 for every such offense." By allowing a range of penalties, the statute provides district

74. 35 U.S.C. § 292(a) (2006).

75. *Id.*

76. *Id.* § 292(b).

77. *Forest Group*, 590 F.3d at 1299.

78. *Id.*

79. *Id.* at 1300.

80. *Id.* at 1301.

81. *Id.* (citing *London v. Everett H. Dunbar Corp.*, 179 F. 506 (1st Cir. 1910)).

82. *Id.* at 1302 (case citations omitted).

83. *Id.* at 1304.

84. *Id.* at 1303.

courts the discretion to strike a balance between encouraging enforcement of an important public policy and imposing disproportionately large penalties for small, inexpensive items produced in large quantities. In the case of inexpensive mass-produced articles, a court has the discretion to determine that a fraction of a penny per article is a proper penalty.⁸⁵

The Federal Circuit remanded the case to the district court for calculation of the appropriate fine for false marking.

Later during the survey period, the Federal Circuit addressed false marking again in *Pequignot v Solo Cup Co.*⁸⁶ In this case, the plaintiff had asserted that the defendant's plastic drink cup lids had been falsely marked with a patent number, and he claimed his half of a \$500-per-article fine.⁸⁷

The opinion discussed background facts at some length, which were plainly vital in its determination that no violation of the false marking statute had occurred. To summarize, Solo had been marking its patent numbers properly on its drink lids.⁸⁸ However, in 2000, it became aware that the patents had expired and that it was at that time marking drink cup lids with the numbers of those expired patents. Solo requested advice from outside counsel and created a policy based on that advice to replace molds as they wore out with new molds that left out the expired patent numbers.⁸⁹ Solo also took further steps to indicate that products "may be covered" by noted patents on the advice of counsel.⁹⁰ Under these facts, the district court found that Solo had rebutted the presumption of intent that arises from falsely marking with knowledge of the falsity.⁹¹ Without intent, there was no liability.

The Federal Circuit agreed. Turning first to the meaning in the statute of the term "unpatented article," the court sided with *Pequignot* in finding that an article once covered by a now-expired patent is an unpatented article, and continued placement of the expired patent number on such article is the sort of conduct that is contrary to Section 292.⁹² As with articles that have never been patented, they are in the public domain. Further, the policies standing behind Section 292 are equally applicable to both types of articles.⁹³ On that basis, the articles were

85. *Id.* at 1304.

86. 608 F.3d 1356 (Fed. Cir. 2010).

87. *Id.* at 1357-58. The court noted that half of the maximum fine would amount to about \$5.4 trillion, or more than 40% of the national debt. *Id.* at 1359 n.1.

88. *Id.* at 1358.

89. *Id.* at 1359. The court noted evidence in the record that suggested that such molds last for a considerable period before wearing out and that "wholesale replacement of the mold cavities would be costly and burdensome." *Id.*

90. *Id.*

91. *Id.* at 1360. The noted presumption came from the *Clontech* opinion. *Clontech Labs., Inc. v. Invitrogen Corp.*, 406 F.3d 347 (Fed. Cir. 2005).

92. *Pequignot*, 608 F.3d at 1361.

93. *Id.* at 1362.

falsely marked.

On the question of intent, the court began from the statutory language by noting that a violation of Section 292 requires actions “for the purpose of deceiving the public.”⁹⁴ Its review of prior cases led it to the same conclusion as Solo and the district court—that false marking and knowledge of falsity provide a rebuttable presumption of intent.⁹⁵ In fact, the court noted that the threshold for proving deceptive intent is high due to the criminal nature of Section 292: “mere knowledge that a marking is false is insufficient to prove intent if Solo can prove that it did not consciously desire the result that the public be deceived.”⁹⁶ Further, Solo put on an adequate rebuttal with its evidence of attempting to address the marking issue through seeking advice of counsel and putting that advice into practice. Perhaps more intriguing is the court’s blessing given to Solo’s statements with respect to its products that they “may be covered” by one or more of the listed patents. The court noted that that statement reflected the true situation and thus found it “highly questionable” whether the statement could have been intended to deceive the public.⁹⁷

Without any basis for liability, the Federal Circuit did not reach the question of a proper monetary remedy. It noted the *Forest Group* decision that every falsely marked product is an “offense” under the statute, so that the fine is calculated on a per-article basis.⁹⁸ One may, without too much concern for error, assume that a levy of \$500 per plastic drink cup lid would be unlikely and even unsupported. The logic of the per-article levy is evident in the Solo situation nonetheless. The court will have discretion to take evidence as to what an appropriate per-article amount would be to deter inappropriate behavior, and/or to recompense a competitor or the general public from the intentional misunderstanding given by a violation of the false marking statute.

V. DIRECT AND INDIRECT TRADEMARK INFRINGEMENT ONLINE: *TIFFANY*

Although not a Seventh Circuit case, *Tiffany (NJ) Inc. v. eBay Inc.*⁹⁹ is quite instructive concerning trademark issues online and in the context of resale of goods. In addition, it is a good reminder that others may use one’s trademark so long as the use is in connection with the trademark owner’s goods or services.

As is well known, a variety of goods are bought and sold via the eBay service

94. *Id.* (citing 35 U.S.C. § 292(a) (2006)).

95. *Id.* at 1362-63. The court suggested that the presumption may be weaker in cases in which the only patent numbers marked on the article were those which had once covered the article. *Id.* at 1363.

96. *Id.*

97. *Id.* at 1365. Surprisingly, the court did not discuss at all the policy considerations noted above: that competitors must spend resources running down the listed patent numbers if they wish to compete. Another query is whether there is some possibility of a latent “deception” by hiding the “good” patent (the one that is in force and covers the product) among expired patent number(s).

98. *Id.* (citing *Forest Group, Inc. v. Bon Tool Co.*, 590 F.3d 1295 (Fed. Cir. 2009)).

99. 600 F.3d 93 (2d Cir. 2010).

in its function as an internet marketplace. As a part of the service, eBay has implemented steps to improve trust and find counterfeit products, including “buyer protection programs,” a “fraud engine,” a “notice-and-takedown” system called “VeRO” for rights-holders to report potentially infringing articles, and other efforts.¹⁰⁰ In promoting its service and attempting to improve its business, eBay also sought to publicize the sale of premium and branded jewelry. Among other efforts, it noted the presence of Tiffany merchandise on its site.¹⁰¹

Tiffany, the renowned seller of jewelry and other products, noticed that a substantial amount of the “Tiffany” merchandise available on eBay was counterfeit.¹⁰² Tiffany also noted the use by eBay of the Tiffany name in eBay’s efforts to drive traffic to its site. In response, Tiffany sued eBay on a number of trademark-related claims, including both direct and indirect infringement and false advertising. Following a bench trial, the district court found in eBay’s favor on all of the claims, and Tiffany appealed.¹⁰³

On the allegations of direct trademark infringement, the Second Circuit focused on the doctrine of “fair use” of a trademark, “which allows ‘[a] defendant [to] use a plaintiff’s trademark to identify the plaintiff’s goods so long as there is no likelihood of confusion about the source of [the] defendant’s product or the mark-holder’s sponsorship or affiliation.’”¹⁰⁴ The court gave three conditions arising from a Ninth Circuit Court of Appeals case for applying the doctrine: the product must be readily identifiable without using the mark; the minimum amount of the mark reasonably necessary to identify the product must be used; and the user cannot suggest sponsorship or endorsement by the mark’s owner.¹⁰⁵ Beyond these formulations, however,

[w]e have recognized that a defendant may lawfully use a plaintiff’s trademark where doing so is necessary to describe the plaintiff’s product and does not imply a false affiliation or endorsement by the plaintiff of the defendant. “While a trademark conveys an exclusive right to the use of a mark in commerce in the area reserved, that right generally does not prevent one who trades a branded product from accurately describing it by its brand name, so long as the trader does not create confusion by

100. *Id.* at 99.

101. *Id.*

102. *Id.* at 97. Tiffany’s proffered evidence purported to show that about three-quarters of the “Tiffany” items on eBay were counterfeit, but the district court indicated that such evidence was flawed. *Id.*

103. *Id.* at 101.

104. *Id.* at 102 (quoting *Merck & Co. v. Mediplan Health Consulting, Inc.*, 425 F. Supp. 2d 402, 413 (S.D.N.Y. 2006)). Fair use in the trademark context should not be confused with the standards and analysis involved in the copyright doctrine of fair use, codified at 17 U.S.C. § 107 (2006).

105. *Tiffany*, 600 F.3d at 102 (citing *New Kids on the Block v. News Am. Publ’g, Inc.*, 971 F.2d 302, 308 (9th Cir. 1992)).

implying an affiliation with the owner of the product.”¹⁰⁶

In other words, where one uses another’s mark to identify that other’s goods, and does not suggest an affiliation or sponsorship by that other of the usage, the usage is permissible.

The district court found that eBay’s uses of the “Tiffany” name was used accurately to describe actual Tiffany goods that sellers were offering on its service.¹⁰⁷ The Second Circuit agreed that eBay’s usage did not imply some sponsorship of its efforts by Tiffany and that Tiffany itself had a presence on eBay that advised that counterfeit material was available on eBay.¹⁰⁸ The implicit result is that there was no public confusion or deception that arose from eBay’s particular usage of the Tiffany name.

Turning to indirect infringement, the court considered whether eBay had liability for “facilitating the infringing conduct” of vendors on its site that sold counterfeit Tiffany goods.¹⁰⁹ However, the principles of such indirect trademark infringement are not well-defined and have arisen out of the use of general common law concepts of vicarious liability in other tort contexts. The principal case from which the *Tiffany* opinion drew was *Inwood Laboratories Inc. v. Ives Laboratories, Inc.*,¹¹⁰ which has also been applied by other circuits.¹¹¹ *Inwood* provided liability for one who “intentionally induces another to infringe a trademark,” or for one who continues to provide a product to another whom it knows is infringing a trademark.¹¹²

For this panel of the Second Circuit, the question devolved to whether eBay met either prong of the *Inwood* formulation.¹¹³ As to the intentional inducement prong, the district court found (and the Second Circuit agreed) that eBay’s takedown provisions eliminated liability for any sales of such sellers.¹¹⁴ That is, where Tiffany had objected to a particular listing, eBay removed it from the site, warned buyers and sellers, and took additional steps. These steps to halt challenged listings were enough to show that eBay did not induce others to make infringing uses or transactions.

On the second prong, however, Tiffany maintained that eBay had more than enough knowledge of counterfeit Tiffany goods, through Tiffany’s own notifications to eBay, to find eBay liable under *Inwood*.¹¹⁵ Both the district court

106. *Id.* at 102-03 (citing *Dow Jones & Co. v. Int’l Sec. Exch., Inc.*, 451 F.3d 295, 308 (2d Cir. 2006)).

107. *Id.* at 103.

108. *Id.*

109. *Id.*

110. 456 U.S. 844 (1982).

111. *See, e.g.*, *Hard Rock Café Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1148 (7th Cir. 1992).

112. *Tiffany*, 600 F.3d at 104 (quoting *Inwood*, 456 U.S. at 854).

113. *Id.* at 106.

114. *Id.*

115. *Id.* at 107.

and the Second Circuit disagreed. The generalized knowledge that some counterfeit goods might be present is insufficient. Rather, for service providers such as eBay, “[s]ome contemporary knowledge of which particular listings are infringing or will infringe in the future is necessary.”¹¹⁶ Notably, the Second Circuit looked to a copyright case, *Sony Corp. of America v. Universal City Studios, Inc.*,¹¹⁷ to interpret the level of knowledge *Inwood* required for vicarious liability.¹¹⁸ Thus, Tiffany’s specific identification of alleged counterfeit goods was addressed quickly through eBay’s procedures, and its general accusation of the existence of other counterfeit goods did not suffice “to demonstrate that eBay was supplying its service to individuals who it knew or had reason to know were selling counterfeit Tiffany goods.”¹¹⁹

This case, as perhaps the first case squarely addressing these trademark issues for an online sales forum, will be of substantial interest to others selling e-tail goods. The opinion spells out in some detail the efforts eBay made to confront counterfeit goods, while recognizing that it could not as a practical matter guarantee that no such goods would find their way to its marketplace. Others involved in this type of business will do well to review eBay’s efforts. Immediately handling complaints from trademark or other intellectual property holders according to established policy will go some distance toward ensuring that one is free from potential direct or vicarious infringement liability. On the plaintiff’s side, *Tiffany* makes very clear the type of information a sales facilitator must have in order to face the possibility of indirect infringement. The result in *Tiffany* is consistent with the general policy that a trademark owner is responsible for policing his or her mark. If the service provider does not act on reasonably specific allegations, then the provider may be on the hook. But if it does, then the mark owner must seek for the actual infringer for redress.

116. *Id.*

117. 464 U.S. 417 (1984).

118. *Tiffany*, 600 F.3d at 108.

119. *Id.* at 109. The result under Seventh Circuit law, following the reasoning of *Hard Rock Café Licensing Corp. v. Concession Services, Inc.*, 955 F.2d 1143 (7th Cir. 1992), would appear to be the same. Both *Hard Rock* and *Tiffany* follow the *Inwood* formulation as interpreted by *Sony*. The facts in *Hard Rock* are somewhat less favorable to the alleged infringement facilitator, insofar as the defendant was not as active as eBay in addressing counterfeit goods. *See id.* at 1146-47. The result in *Hard Rock* was that the defendant *could* be liable, but the showing made by the plaintiff was not sufficient to impose liability under *Inwood*. *Id.* at 1149.

