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RFG Firm News

We are pleased to welcome Attorney Gary Mach to our growing trademark practice!

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RFG Partners R. Terrance Rader, Michael D. Fishman and Michael B. Stewart have been recognized by *Best Lawyers* and included in the list of *Best Lawyers of America 2012*.

See news [here](#)

Substantial U.S. Patent Statute Revisions Signed Into Law on September 16, 2011

By: [Jason S. Burnette](#) and [Kristin L. Murphy](#)

Substantial revisions to US patent law have been proposed numerous times over the past decade with no real expectation of passage until now, and with the expectation that the revisions will promote job creation. After passing the United States House of Representatives and the United States Senate with overwhelming support, the *Leahy-Smith America Invents Act* (H.R. 1249 and S. 23) was signed

into law by President Obama on September 16, 2011.

Several of the most important changes are summarized below. This list is by no means exhaustive and merely provides highlights of some of the most important provisions.

Satellite Offices

The USPTO is required to establish a pilot satellite Detroit Office and two more satellite offices within three years. For many of our clients, having personal access to Examiners at both our Washington, DC office as well as our Detroit office, which is anticipated to hire hundreds of examiners, may prove very beneficial.

Important Fee Changes

The new law provides for increased fees - a 15% surcharge, for almost all fees, including fees for original filings, examination, continued examination and maintenance. These new fees go into effect ten (10) days after enactment, i.e., **September 26, 2011**. Thus, it may make sense to take certain actions in the next week. Please contact us if you would like to discuss specifics for any of your pending matters.

First Inventor to File

The United States has long operated under a "first-to-invent" system where patent rights are granted to the patent applicant who actually invented the claimed invention first, even if someone else *filed* for patent protection first. When an inventor conceives of an invention and *diligently* reduces the invention to practice (by filing a patent application, by practicing the invention, etc.), the inventor's date of invention will be the date of conception. Under the new law, the U.S. patent system falls in line with most other nations, which use a "first-to-file" system, based on the patent application filing date. The "first-to-file" will take effect on Feb. 19, 2013. Planning for this transition will undoubtedly be important for many and use of provisional patent applications in certain situations may be warranted after the effective date of this provision.

Defense to Infringement Based on Earlier Inventor

U.S. law has long allowed alleged patent infringers to employ a "prior-use" defense when a patent is a business method patent and the accused infringer can show that he had practiced the claimed method in the U.S., more than a year prior to the patent's filing date. Other countries have a much more expansive prior-use regime. The new law proposes changes where 1) the prior-use defense may be asserted against *any* patent, regardless of subject matter, 2) the defense cannot be asserted if the subject matter was derived from the patent holder or persons in privity with the patent holder; and 3), the defense cannot be asserted unless the prior user both reduced the subject matter of the patent to practice and commercially used it at least one (1) year before the effective filing date of the patent or the date that the patentee publicly disclosed the invention and invoked

the § 102(b) grace period, whichever is earlier.

Marking

Virtual Marking

The law modifies the patent marking requirement such that it would permit patentees to "virtually mark" their products by labeling the articles with an address of a publicly available website that associates the patented article with a patent number.

False Marking

In order to quell a "recent surge" in *qui tam* false marking litigation, the law mandates that only the United States Government can seek the \$500-per-article fine (which previously was split between the government and a party bringing a false marking claim). Third party competitors could only recover in relation to the actual damages (if any can be proven) that they have suffered as a result of false marking. Marking with an expired patent is "not a violation of this section."

Transitional Program for Covered Business Method Patents

The new law also includes proposed changes to address concerns regarding the large numbers of questionable business method patents issued during the late 1990's through the early 2000's that led to numerous lawsuits and compelled the Committee to launch the patent reform project six (6) years ago due to an alleged lack of examiners and a dearth of available prior art. The Act would require the USPTO to implement a provisional post-grant proceeding for review of the validity of any business method patent, establish regulations for this transitional program and mandate that the program last ten (10) years after the regulations are issued.

Post Grant Review Procedures & Inter Partes Review

The new law provides for a "post grant review proceeding," that allows anyone, except the patent owner, to petition for cancellation of a patent claim based on *any* ground of invalidity. The petition must be filed within nine (9) months after issuance of the patent.

Petitions for *inter partes review* may be filed after nine (9) months following the issuance of the patent or after termination of a post grant review procedure, whichever is later. However, *inter partes review* is limited to invalidity challenges based on prior art patents and publications. A patent owner is permitted to raise a preliminary challenge against the institution of an *inter partes review*.

Conclusion

While not everyone agrees with the changes that have been implemented, at least the uncertainty of the past several years is now at an end. A majority of the

provisions will take effect immediately and a select set of provisions take effect one (1) or more years following the date of enactment and shall apply to any patent issued on or after that date. If you have further questions or concerns regarding the pending legislation, a full copy of the *Leahy-Smith America Invents Act* may be found at *S. 23* and the House Report may be found at *H.R. 1249*, or contact any Rader, Fishman & Grauer attorney directly at (248) 594-0600.

To read a more detailed version of this article click [here](#).

The New Standard for the Inequitable Conduct Doctrine

In May, the Federal Circuit tightened the standard for inequitable conduct in deciding *Therasense vs. Becton Dickinson*. The court rejected the previous standard which implemented a "sliding scale" approach for finding intent and materiality with respect to a non-disclosed reference. Under the new standard, intent and materiality remain the key factors, but must be proven under a more stringent test. Under the new, two part test, the party alleging inequitable conduct must show by clear and convincing evidence that the "applicant knew of the reference, knew that it was material, and made a deliberate decision to withhold it." The party must also show materiality by proving by a preponderance of the evidence that "but for" the reference, the PTO would not have allowed the claim. The court reasoned that if the patent would have issued anyway, then the patentee did not gain a benefit by the alleged nondisclosure.

The court also carved out an exception to the test if materiality cannot be demonstrated. Misconduct may still be found where "the patentee has engaged in affirmative acts of egregious misconduct." The court stated that this exception "strikes a balance between encouraging honesty before the PTO and preventing unfounded accusations of inequitable conduct."

In its first post-*Therasense* decision, the court in *American Calcar, Inc. v. Honda Motor Co.* held that because the non-disclosed reference anticipated one of the patents at issue, the reference was "but for" material under the new standard. The court remanded the case back to the district court for further findings on intent based on the new standard, however, because the district court did not make a holding that the applicants knew that the non-disclosed reference was material.

In a Federal Register notice published in July, the USPTO indicated its intent to revise its standards surrounding the duty to disclose in response to *Therasense*. Under the proposed rule, a non-disclosed reference is never material if the claim would have been allowed regardless of the reference. Thus, the materiality standard would reflect that "but for" standard set forth in *Therasense*.

See: [Calcar v. Honda](#), [Therasense v. Becton](#), [Federal Register](#)

Extracting Nuisance Value Settlements Equates to Bad Faith

"[T]he appetite for licensing revenue cannot over power a litigant's and its counsel's obligation to file cases reasonably based in law and fact and to litigate

those cases in good faith." *Eon-Net LP v. Flagstar Bancorp*, Slip. Op. 2009-1308 at 24 (Fed. Cir. 2011). This principal underlined the Eon-Net Court's review of the district court's discretion in applying 35 U.S.C. § 285 and awarding attorney fees.

Under 35 U.S.C. §285, authority vests with the district court to award attorney fees to a prevailing party in patent litigation when a case is determined "exceptional." This determination is a two-step process: first, a district court must determine whether the prevailing party has proven by clear and convincing evidence that the case is exceptional; and second, if the case is found to be exceptional, the court must determine whether an award of attorney fees is appropriate. *iLor v. Google*, 631 F.3d 1372, at 8 (Fed. Cir. 2011)(Attorney fees may also be procured under F.R.C.P. 11; however, § 285 may be used in the absence of (or in addition to) conduct that violates F.R.C.P. 11).

In *Eon-Net*, when reviewing the district court's factual findings, to determine the presence of the misconduct varieties that support an exceptional case finding, the Court agreed that *Eon-Net*'s offensive litigation tactics of improperly pursuing infringement claims (by *Eon-Net*'s submission of incomplete and misleading extrinsic evidence during claim construction proceedings) and of obtaining nuisance value settlements via an improper use of the judicial system were supportive of an exceptional case finding.

The Court reasoned that *Eon-Net*'s destruction of evidence and intentional disregard for a document retention plan demonstrated their litigation misconduct. Specifically, *Eon-Net*'s principal testified that they "have adopted a document retention policy which is that we don't retain any documents."

In addition, *Eon-Net*'s case against *Flagstar* had "indicia of extortion" because it was part of *Eon-Net*'s history of filing nearly identical patent infringement complaints against a plethora of diverse defendants, where *Eon-Net* followed each filing with a demand for a quick settlement at a price far lower than the cost to defend litigation. The Court further reasoned that the record supports bad faith, because when the district court made its exceptional case findings, *Eon-Net* and its related entities had filed over 100 lawsuits each of which were followed by the quick settlement letters.

Under § 285 and Rule 11, the Federal Circuit affirmed the district court's factual findings and awarding of over half a million in attorney fees and sanctions to *Flagstar*.

Moving forward, defendants must be aware that § 285 is a tool in the defense box for shielding themselves from bad faith lawsuits, and plaintiffs must understand and avoid the misconduct varieties (some of which *Eon-Net* highlights) that create liability under § 285. If you have further questions or concerns regarding *Eon-Net LP v. Flagstar Bancorp* or 35 U.S.C. §285, please contact any Rader, Fishman & Grauer attorney directly at (248) 594-0600.

General Protecht Gp. v. Leviton

In *GPG v. Leviton*, the Federal Circuit clarified certain rules of contract interpretation with respect to a settlement agreement providing a patent license. First, the Court clarified that a forum selection clause in a settlement agreement may be found to apply to a dispute on patents issuing from patents covered by the covenant not to sue. Second, the Court further clarified that absent a "clear indication of mutual intent to the contrary," a license agreement to patents may be read to include an implied license to patents issuing from continuations, even if the scope of the continuation patents is narrower than that of the licensed patents.

Both GPG and Leviton produce ground fault circuit interrupter products, and Leviton sued GPG for patent infringement on two of Leviton's ground fault circuit interrupter patents. That suit ended with a settlement agreement, the settlement agreement including both a covenant not to sue GPG or its customers on the patents-in-suit, as well as a venue clause indicating that all disputes are to be prosecuted in the United States District Court for the District of New Mexico. Notably, the covenant did not mention patent applications that issue claiming priority to the patents-in-suit.

Despite the settlement agreement, Leviton filed complaints in jurisdictions other than New Mexico, alleged infringement of two patents that issued from applications claiming priority to the patents GPG had licensed from Leviton. GPG countered that it had a license to practice the continuation patents because of the settlement agreement, and asserted a declaratory judgment action in the District of New Mexico alleging that Leviton was required to file suit in that Court pursuant to the venue provision of the settlement agreement.

Relying on *Texas Instruments v. Tessera, Inc.*, 231 F.3d 1325 (Fed. Cir., 2000), because "[p]atent infringement disputes do arise from license agreements," the Federal Circuit affirmed the District of New Mexico that a dispute on continuation patents "relates to or arises out of" the settlement agreement. Therefore, the Federal Circuit clarified that not only may a venue clause in a settlement agreement apply to patents specifically mentioned in the settlement agreement, but the venue clause may further apply to continuation patents not part of the original dispute.

With respect to any implied license, the Federal Circuit relied on *TransCore v. Electronic Transaction Consultants Corp.*, 563 F.3d 1271 (Fed. Cir. 2009).

TransCore presented a similar situation with a suit based on continuation patents after a license agreement. However, in *TransCore*, the claims of the continuation were broader than the claims of the expressly licensed patents, and therefore a license to the continuation would be necessary to practice the expressly licensed patents. Following *TransCore*, the Federal Circuit indicated that Leviton cannot "[take] back in any extent that for which he has already received consideration," and held that Leviton's actions took back GPG's rights already granted under the settlement agreement. Moreover, to the extent that the scope of Leviton's continuation patents are narrower than the licensed parent patents, the Federal Circuit extended the reasoning in *TransCore* to beyond cases where the claims of the continuation parents are broader than those of the licensed patents. The full opinion is available [here](#).

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