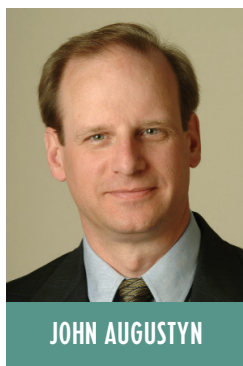


Recent Patent Decisions And Their Impact On Your Company

The U.S. Supreme Court and the Court of Appeals for the Federal Circuit recently decided several cases which answered questions relating to patent law. This article provides a brief summary of those decisions and how these cases may impact your company in the future.

1. Patent Licensing and the Exhaustion Doctrine

In *Quanta Computer, Inc. v. LG Electronics, Inc.* the U.S. Supreme Court decided that the patent exhaustion



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doctrine applies to the authorized sale of components that “substantially embody” a patent. Quanta was a computer manufacturer and installed Intel chips in the computers which were made for other companies, such as, Dell and Hewlett-Packard. Quanta purchased the chips from Intel. LG owned several patents relating to the chips. LG licensed Intel to sell the chips, but LG did not license

Intel’s customers, such as Quanta. LG sued Quanta and asserted that the combination of Intel products with non-Intel related components infringed LG’s patents. Quanta argued that the patents were exhausted based on Intel’s authorized sale of products to Quanta.

The patent exhaustion doctrine provides that the initial authorized sale of a patented item terminates patent rights to that particular item. It also applies when the patentee licenses another company to make a product. The Supreme Court stated that the authorized sale of the product embodying the method can exhaust patent rights covering the method.

Some commentators believe that the *Quanta* decision will likely make it more difficult for a patent owner to control downstream users and purchasers. When a patent owner wants to license the same patents to multiple parties in a supply chain for the same prod-

uct, the patent owner should consider the impact of the license on subsequent licensing activities. With respect to litigation, the *Quanta* decision may be useful in response to a charge of patent infringement.

2. Patentability of Business Method Claims

Business method claims are often used to protect the way a business conducts the methods of performing its operations. When the Patent Office examined the patent applications, several different tests were being presented concerning patent eligibility, such as, the “machine or transformation” test, the “technological arts” test and the State Street Bank “useful, concrete, and tangible test.” In an en banc opinion, the Court of Appeals for the Federal Circuit, in *In re Bilski*, decided that the only test of patent eligibility for method claims is the “machine or transformation” test which was set forth by the U.S. Supreme Court in *Gottschalk v. Benson* in 1972. Under the test, the method claim must be tied to a particular machine or by showing that the claim transforms an article.

The *Bilski* decision may be useful in response to patent infringement if the claim does not meet the test. With respect to preparing patent applications, the *Bilski* decision means that the patent claims will need to be carefully written in order to satisfy this test. Also, the patent application may need to include additional information concerning the process in order to provide more detail for the method claims, if necessary.

3. Design Patents Become More Valuable

Design patents protect the appearance of an item and use drawings to show and claim the design. Previously, the Court of Appeals for the Federal Circuit used two tests to determine infringement. The first test was the “ordinary observer” test and the second test was the “point of novelty” test. In *Egyptian Goddess v. Swisa, Inc.*, the Court of Appeals for the Federal Circuit, in an en banc decision, eliminated the point of novelty test. The point of novelty test created issues during the litigation if there were

several points of novelty, or if the point of novelty was the specific combination of existing design elements. The Federal Circuit held that the ordinary observer test should be used to determine design patent infringement. The ordinary observer test requires a comparison between the accused design and the patented design, and then a consideration of the prior art if additional analysis is required. The Federal Circuit also stated that the claim construction for design patents does not require a detailed verbal description of the claimed design.

Many commentators believe that design patents are more valuable after this decision because the test for infringement has been simplified by eliminating the point of novelty test. Thus, companies who did not file design patent applications in the past, may want to consider filing design patent applications to prevent their competitors from selling infringing products. Also, companies may want to consider asserting their current design patents against their competitors.

4. Opinion of Patent Counsel

Companies obtain opinions of patent counsel with respect to specific patents and products for several reasons, including the potential use of the opinion in response to an allegation of willful infringement. There has been significant discussion about opinions of patent counsel after the Federal Circuit's *Seagate* decision in 2007. However, in a decision subsequent to *Seagate*, the Court of Appeals for the Federal Circuit in *Broadcom Corp. v. Qualcomm, Inc.*, held that a jury may consider evidence on whether a company obtained an opinion from patent counsel in determining whether a company induced patent infringement.

The *Broadcom* decision demonstrates that an opinion of patent counsel may be useful at trial. In addition, companies can use patent opinions for risk assessment in developing new products before incurring considerable expense and time in product development. The patent opinion may also help to determine a defense or strategy if a patent is asserted.

5. Direct Infringement of Method Claims

A method claim in a patent requires certain steps to be performed to infringe the method claim. A method claim may be written such that different entities perform

different steps, such as, Entity A performs Steps 1 and 2, and Entity B performs Step 3. Entity A may not be controlled by Entity B. The issue then becomes how to prove direct infringement of the method claim. In *Muniauction v. Thomson Corp.* the Court of Appeals for the Federal Circuit held that the combined actions of multiple parties are not enough to demonstrate direct infringement of a method claim unless one of the parties exercises control over the entire process.

In *Muniauction*, bidders for financial services entered their bids in an online system. The auction company received the data and determined the successful bidder. The patent claim required different entities to execute different steps in the process. The bidders executed some steps and the auction company executed other steps. The Court held that there was no direct infringement since the auction company did not control the actions of the bidders.

Thus, method claims, such as business method claims, may create infringement questions if two entities perform different steps in the method and one of the entities does not exercise control over the other. The *Muniauction* decision should be considered before a patent is asserted against another entity, and as a possible response to an allegation of direct infringement. In addition, during the preparation of the patent application and the claims, consideration should be given on whether at least some of the claims should be written so that only one entity performs the steps of the claim.

This article is for discussion and informational purposes only, and should not be considered legal advice.

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This article is the corrected version of the same article which appears in our printed editions with errors. We regret the errors.



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