



# IP Advisory

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## The Early Impact of *In Re Bilski*

When the Federal Circuit issued its highly anticipated en banc decision, *In re Bilski*, 545 F.3d 943 (Fed. Cir. 2008) last October, many commentators opined that it marked the beginning of the end for software and business method patents. While the early decisions from district courts and the Board of Patent Appeals and Interferences (the "Board") may seem to support this forecast, it bears noting that the *Bilski* case actually reaffirmed the patentability of business methods and other process claims. Cases in the immediate aftermath are a reflection of the fact that the Federal Circuit has changed the rules of the game.

In 1998, the Federal Circuit announced the patentability of business methods in its landmark decision of *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, 149 F.3d 1368 (Fed. Cir. 1998). In

*Bilski*, while acknowledging that business methods are still patentable, the Federal Circuit found that the "useful, concrete, and tangible result" test it established in *State Street*, was "inadequate" and "never intended to supplant the Supreme Court's test." *Bilski*, 149 F.3d at 959-60. In examining the Supreme Court precedent, the Federal Circuit noted, "[a] claimed process is surely patent-eligible ... if: (1) it is tied to a particular machine or apparatus, or (2) it transforms a particular article into a different state or thing." *Id.* at 954 (Citing *Diamond v. Diehr*, 450 U.S. 175 (1981) and *Gottschalk v. Benson*, 409 U.S. 63 (1972)). More succinctly, method claims are patentable if they pass a "machine-or-transformation" test.

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## News About Us – Mid-Year Report 2009

- On January 9, Steve Auvil argued before the Federal Circuit on behalf of appellee, Fitness Quest, Inc.
- Bryan Schwartz and Steve Auvil are participating in an initiative by the United States District Court, Northern District of Ohio, to enact local rules governing patent cases in the district
- On March 4, 2009, Mark Avsec was a featured panelist at a University of California at Berkeley School of Law (Boalt Hall) music law symposium. Mark has also been added to the faculty for the 2009 Seminar for Federal Judges Sponsored by the Federal Judicial Center and the Berkeley Center for Law & Technology. The 2009 Seminar for Federal Judges is titled "Intellectual Property in the New Technological Age" and will take place May 27–29, 2009 at the University of California at Berkeley campus. Mark will present on copyright infringement analysis with Professors Peter Menell and David Nimmer.
- Rita Kline is speaking on May 12 at the Going Global With Your Brand Forum at the Going Global Today seminar
- Rita Kline hosted an INTA roundtable at Benesch on April 29 titled: Managing Trademark Costs in a Down Economy - Opportunities and Obstacles for Brand Owners

## The Early Impact of *In Re Bilski*

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Mr. Bilski's application was directed to a method of hedging risk in the field of commodities trading. The claims were not limited to transactions involving tangible commodities, but included transactions involving mere options.

*Bilski* came to the Federal Circuit on appeal from a Board decision sustaining the rejection of all

11 claims of the application. The Board found that the claims did not meet the "useful, concrete, and tangible result" test and also found no patent-eligible transformation. In its decision, the Board noted that a

transformation of "non-physical financial risks and legal liabilities" is not patent-eligible subject matter.

The Federal Circuit was clearly cognizant of the heightened interest the Supreme Court has recently shown in patent cases. Where in the past, the Federal Circuit tended to build on its own precedent, here it relied exclusively on Supreme Court cases. In doing so, it looked to Supreme Court cases from the mid-nineteenth century to overturn the test established by the Federal Circuit at the close of the twentieth. *Laboratory Corp. of America Holdings v. Metabolite Laboratories, Inc.*, 548 U.S. 124 (2006); *Diamond v. Diehr*, 450 U.S. 175 (1981); *Diamond v. Chakrabarty*, 444 U.S. 1028 (1980); *Parker v. Flook*, 437 U.S. 584 (1978); *Gottschalk v. Benson*, 409 U.S. 63 (1972); *Funk Bros. Seed Co. v. Kalo Inoculant Co.*, 333 U.S. 127 (1948); *Mackay Radio & Tel. Co. v. Radio Corp. of Am.*, 306 U.S. 86 (1939); *Tilghman v. Proctor*, 102 U.S. 707 (1880); *Cochrane v. Deener*, 94 U.S. 780 (1877); *Cochrane v. Deener*, 94 U.S. 780 (1876); *Corning v. Burden*, 56 U.S. 252 (1854); O'Reilly

*v. Morse*, 56 U.S. 62 (1853); *Le Roy v. Tatham*, 55 U.S. 156 (1852).

In applying the "machine-or-transformation" test to the claims at issue, the Federal Circuit first noted (and the Applicant conceded) that the application was not directed to any particular machine or apparatus. The

court therefore focused on the "transformation" requirement, noting that the transformation must be central to the purpose of the claimed process.

Because innovations in the information

age increasingly involve electronic signals and electronically-manipulated data, the court recognized the difficulty of determining the existence of a patent-eligible transformation. In fact, the Federal Circuit acknowledged that we may be dealing with a moving target, by noting that "we recognize that the Supreme Court may ultimately decide to alter or perhaps even set aside this test to accommodate emerging technologies."

Since *Bilski*, district courts have twice used the "machine-or-transformation" test to find patents-in-suit to be invalid. In *King Pharmaceuticals, Inc. v. Eon Labs, Inc.*, \_\_\_ F.Supp.2d \_\_\_, 2009 WL 120306 (E.D.N.Y. 2009), the district court found that an asserted *dependent* claim was invalid for failing the "machine-or-transformation" test. Strangely, the court only applied the test to the limitations of the dependent claim, without comment on whether the independent claim limitations were sufficiently transformative or properly linked to a machine. *Id.* at \*9. In *Fort Properties, Inc. v. American Master Lease, LLC*, 2009 WL 249205 (C.D. Cal. 2009), the district court noted that the Examiner

applied the "useful, concrete, and tangible result" established in *State Street*. In applying the *Bilski* test, the court found that the method claims failed to employ a machine or cause a transformation. *Id.* at \*5. While these cases confirm that the *Bilski* test is narrower than *State Street*, they are not a categorical indictment against business method and software patents.

Slightly more troubling is the apparent trend by the Board. *Bilski* has already been cited 18 times by the Board at the time of this writing, with the Board finding a lack of patentable subject matter in an overwhelming majority of the cases. While some commentators mark this fact as evidence that the patent office may be moving towards a bar of software and business method patents, a more detailed review reveals that most of the appeals were related to very broad claims, leading to speculation that the Board may simply be employing the *Bilski* test as a shortcut to dispose of claims that should otherwise be rejected as anticipated or obvious in view of the prior art. Even if this analysis is overstated, it must be recognized that the appellants in these cases have been handicapped with claims that were drafted well before the *Bilski* test was established.

More recently, the Federal Circuit has used the *Bilski* test to uphold a patent office rejection in *In re Ferguson*, No. 07-1232 (Fed. Cir.) on March 6. In *Ferguson*, the application claimed a marketing method that clearly did not involve a machine or result in a transformation. Instead, the Federal Circuit found that "[a]t best it can be said that Applicants' methods are directed to organizing business or legal relationships in the structuring of a sales force (or marketing company)." During the appeal, the appellant proposed that the Federal Circuit abandon the *Bilski*

test in favor of a broader test of whether “the product or process has more than a scintilla of interaction with the real world in a specific way.” The Federal Circuit was not persuaded to abandon its new test, and found the claims unpatentable under the machine-or-transformation test.

Based on the information available thus far, applicants that are actively prosecuting business method claims would be well served to ensure their claims include a step of displaying data or otherwise performing a physical transformation. Alternatively, a claim

set that specifically recites a computer or machine for performing steps may also be sufficient.

Similarly, patentees already holding issued business method claims should also take heed that *Bilski* may have implications on the validity of their patents. Analysis of existing claims under the rubric of the “machine-or-transformation” test is certainly in order, and reissue proceedings in the patent office may ultimately be needed to bring questionable claims in line with this standard.

However, it is still premature to attempt to gauge the full impact of *Bilski*. In fact, the story may not be complete—in January Mr. Bilski petitioned the Supreme Court for *certiorari*. As the situation plays out, those without an impending deadline may be best served by a few more months of patience to allow the landscape to reveal itself.

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## Post-KSR Obviousness

An unsettling question among patent applicants is how the Supreme Court's obviousness analysis and decision in *KSR v. Teleflex*, 550 U.S. 398 (April 30, 2007), impacts pending patent applications and the validity of issued patents. Two years after the KSR decision, the predicted difficulty in obtaining a patent has held true with some recent estimates of 2008 allowance rates being less than 45%. It is now much easier for the USPTO to make obviousness rejections and it is also now more difficult for applicants to overcome such rejections. In addition, a greater number of issued patents are being challenged and are being held invalid as obvious by the Court of Appeals for the Federal Circuit.

The Federal Circuit continues to employ a “look both ways” analysis that looks to the past for motivation and looks to the future for predictability where the courts and the USPTO can now be even more flexible in assessing motivation and predictability. The Federal Circuit, post-KSR, considers not only explicit motivation but considers effects and demands known to the design community or that are present in the marketplace as well as what is known by the interrelated teachings of multiple

patents within the mind of a person having ordinary skill in the art (PHOSITA). KSR suggested that combining known elements having known functions to produce predictable results could prove to be obvious, and several recent decisions by the Federal Circuit confirm this. The Federal Circuit has invalidated nearly every mechanical arts case that was appealed on the issue of validity post-KSR. Recent decisions relating to patents and patent applications in the chemical arts have been more evenly decided.

When applying the obviousness standard to certain chemical cases, the Federal Circuit has found the “obvious to try” test to be misunderstood and more broadly considers whether the PHOSITA would have known, for example, which criterion to test as well as the predictability of the tested results. Furthermore, it appears that an applicant or patentee's evidence of secondary considerations to prove non-obviousness may need to be significant so as to “outweigh” the primary considerations that have been used to establish a *prima facie* case for obviousness. Applicants must often show greater evidence of synergistic results, unexpected outcomes or other secondary considerations to

assist in proving that the claimed subject matter would have been unobvious.

### A Prima Facie Case

In KSR, the Supreme Court rejected the Federal Circuit's rigid application of the teaching, suggestion, motivation (TSM) test, in favor of the analysis found in *Graham v. John Deere*, 383 U.S. 1 (1966), that is considered a more “expansive and flexible” approach to the question of obviousness. Under the *Graham* analysis—the standard in light of KSR—*obviousness* is a question of law based upon the factual inquiries of: determining the scope and content of the prior art, ascertaining the differences between the claimed invention and the prior art, and resolving the level of skill of the PHOSITA.

An examiner's assertion that the claimed invention is *prima facie* obvious can be refuted with arguments showing one or more of the following: 1) that the combined elements of the cited references do not contain every element of the claimed invention; 2) that the cited references, which do include every element of the claimed invention, nevertheless “teach away” from their combination or otherwise render them inoperable; and 3) that it would not have been obvious for one of ordinary skill in the art to make the modification of the

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## Post-KSR Obviousness

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elements disclosed in the references to arrive at the claimed invention. Clearly, the third argument presents the greatest challenge in overcoming an obviousness rejection when the facts are such that the first and second arguments do not apply. Fact patterns and cited references that require reasoned arguments that it is not obvious for one of ordinary skill in the art to combine known elements are the most common and controversial, and therefore, represent a large class of the obviousness cases that end up before the Board of Patent Appeals and Interferences (BPAI) and the Federal Circuit.

Motivation and predictability seem to be the touchstone criteria of obviousness, and the recent cases show that an analysis of the problem, the solution, and the skill level of the PHOSITA are all determining factors of whether the claimed invention is obvious for the PHOSITA. Some cases have placed greater focus on the problem and others have placed greater focus on the solution, while also referring to the PHOSITA in analyzing the facts surrounding the problem and the solution.

Mechanical cases that involve the combination of familiar elements that function the same to produce predictable, rather than synergistic, results are highly likely to be found obvious. For example, in *Leapfrog Enterprise, Inc. v. Fisher-Price*, 485 F.3d 1157 (May 9, 2007), the claimed invention directed to an electronic phonetics reading device was found obvious. The Federal Circuit seemed to focus on the motivation for solving a problem and noted that the trend of applying modern electronics to older mechanical devices had been

commonplace in recent years. The court concluded that a PHOSITA of children's learning toys would be aware of the trend and would be inclined to make easy utilization of the electronics of one known device with the method of operation taught in another device. In *Agrizap, Inc. v. Woodstream Corp.*, 520 F.3d 1337 (March 28, 2008) the Federal

Circuit seemed to focus on the solution in arriving at the claimed product and compared it those of the prior art. The claims were found obvious because the claimed apparatus was identical to a prior patent except a different electrical switch was used to complete the electric circuit. The substitution of one element for another yielded predictable results and was held obvious.

Perhaps no less instructive are the cases in which a claimed feature, or even the need for a claimed feature, is not disclosed in the cited references. In a nonprecedential case, *Omegasflex v. Parker Hannifin*, 243 Fed.Appx. 592 (June 18, 2007), the Federal Circuit reversed a district court's summary judgment upholding a patent directed to a fitting device. The district court noted that neither a locating sleeve nor any alignment aid was not found in the cited references, nor was there mention of a need for modification to address an alignment problem. Further, evidence showed that the missing element was undesirable in the overall function of the product because the addition of a locating sleeve might impede the flow of gas through the fitting, and so there was no expectation of success. The Federal Circuit remanded the case to determine material issues of fact and noted that it

was irrelevant that the cited patent did not address a need for any modification given expert testimony that a skilled artisan would have recognized such a need from his own knowledge rather than from the cited patent. In *Erico International v. Vutec*, 516 F.3d 1350 (February 19, 2008), the patent at issue involved a method of using j-hook fasteners, metal devices which support installed communication cables. The Federal Circuit reversed a grant of preliminary injunction, finding that a prior art patent and electrical industry standards could "implicitly motivate" a person of ordinary skill in the art to combine the prior art and arrive at the patented method of using the device. The court cited KSR in support of its finding that the motivation to combine prior art can be implied, unspoken, and based on common sense and that implied motivation will suffice.

In contrast to mechanical arts cases, the Federal Circuit has upheld patent claims as unobvious in chemical arts cases where there was less predictability. Yet, the court still found obviousness where experimentation was performed to validate what was already reasonably predicted. One of the first cases the Federal Circuit considered after KSR was *Pfizer v. Apotex*, 488 F.3d 1377 (May 22, 2007). The Federal Circuit reaffirmed KSR's teaching that "obvious to try" is not a proper standard for obviousness, as it is too mechanical. In this case the court looked at not only whether the experimentation came within the teaching of the art, but also looked to the predictive outcome of the testing. The court found it to be sufficiently reasonable that a particular salt, amlodipin besylate, would form where a PHOSITA was capable of further narrowing a known list of 53 anions to a much smaller group for testing and verification, and therefore invalidated the claims. However, in *Takeda Chem.*

*Indus., Ltd. v. Alphapharm Pty., Ltd.*, 492 F.3d 1350 (June 28, 2007), the Federal Circuit held the claimed compound to be unobvious as the evidence demonstrated that the prior art disclosed myriad compounds, any of which could have been chosen for additional investigation. The court found that motivation required identification of some reason that would have led a chemist to modify a known compound in a particular manner. In addition, the solution was not predictable because the most similar compound had negative properties and would discourage a PHOSITA to investigate further.

In the more recent decision of *Sud-Chemie v. Multisorb Technologies*, 554 F.3d 1001 (January 30, 2009), the Federal Circuit vacated the district court's finding of obviousness to claims of a desiccant container. The claimed invention required use of an uncoated microporous film and an uncoated laminate film such that both films are comprised of "compatible polymeric materials." The prior art disclosed the use of materials taken from the same general class of materials but specifically described a container with a microporous layer having a high softening point with a laminate layer having a low softening temperature. The claimed invention, however, required two films with similar softening points to form bonds that are significantly stronger. Therefore, the Federal Circuit remanded the case because it disagreed with the district court's conclusion that the prior art teaches the same materials, and it also disagreed with the lower court's disregard for evidence that the claimed invention produced significantly better results.

### Secondary Considerations

Once a *prima facie* case is established, the burden is shifted to the applicant to rebut with objective evidence of non-obviousness, known as "secondary considerations." Secondary considerations can include factors relating to: (1) copying, (2) long felt but unsolved need, (3) failure of others,

(4) commercial success, (5) unexpected results created by the claimed invention, and (6) licenses showing industry respect for the invention and skepticism of skilled artisans before the invention. Facts established by rebuttal evidence must be evaluated and compared with facts on which the conclusion of *prima facie* obviousness was reached.

Post-KSR, the Federal Circuit has made it clear that there must be a nexus between the merits of the claimed product and any evidence of commercial or scientific success. For example, in *Muniauction, Inc. v. Thomson Corp*, 532 F.3d 1318 (July 14, 2008) the plaintiff had shown the success of its bidding system; however, the evidence of success focused upon only one part of the invention—"maturity-by-maturity bidding" as opposed to "all-or-none bidding." The Federal Circuit noted that although both auction types are disclosed in the written description, the claims include both conventional all-or-none bidding as well as maturity-by-maturity bidding, and therefore, the evidence of success lacks the required nexus with the scope of the claims.

Assuming proper nexus, the question arises as to the weight that is accorded to secondary considerations. Evidence establishing that a claimed invention produces a surprising or unexpected result seems to be given greater weight than evidence that a product or process has achieved commercial success or that an invention met a long felt need. For instance, in *Leapfrog Enterprises*, despite strong evidence of commercial success and long-felt need, the Federal Circuit invalidated the patent. It was noted that because the product resulted from a combination of familiar elements that yielded predictable results, the facts surrounding primary considerations provided a stronger case for obviousness. Likewise, in *Agrizap* the Federal Circuit found that the combination of familiar elements yielding predictable results outweighed objective evidence of non-obviousness.

In *Erico International*, Judge Newman (dissenting) criticized the panel's decision for ignoring evidence of commercial success and copying and instead focusing on the simplicity of the invention in "hindsight." She noted that objective evidence aids in understanding how an invention is viewed by contemporaries in the field of the invention, and is therefore a significant consideration in determining non-obviousness.

Finally, the *Sud-Chemie* case is an example in which secondary considerations showing surprising and unexpected results (i.e. data showing that compatible materials formed stronger bonds without adhesive), should weigh heavily in an obviousness analysis. The Federal Circuit did not apply these findings to form a conclusion on the issue of obviousness, but the court remanded for further development of the facts.

### Conclusion

Post-KSR cases thus far make it clear that the obviousness analysis is fact-intensive and varies considerably from case to case. Analysis requires one to stand in the shoes of the PHOSITA at the time of the invention, and to look backwards in time for motivation, perhaps couched in some technical problem or a market trend, and to also look forward in time to predictability of a solution in view of the past interrelated teachings in print or in the mind of the PHOSITA. Undoubtedly, the decreased allowance rates in patent applications can be attributed in large part to the Supreme Court's decision in KSR, however, additional fact patterns that result in a ruling for patentability by the Federal Circuit are needed to gain a better understanding of unobvious inventions in both the mechanical and chemical arts.

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## In *Star Scientific* and *Praxair*, The Federal Circuit Takes One Step Forward And Two Steps Back On Inequitable Conduct.

A party may prevail on a charge of inequitable conduct if it shows by clear and convincing evidence that a patent applicant: (1) made an affirmative misrepresentation of material fact, failed to disclose material information, or submitted false material information, and (2) intended to deceive the PTO.

Regarding the latter element, the Federal Circuit ruled more than two decades ago that “gross negligence” alone cannot justify an inference of an intent to deceive. *Kingsdown Medical Consultants, Ltd. v. Hollister Inc.*, 863 F.2d 867 (Fed. Cir. 1988) (en banc). Yet, practitioners and parties alike are well aware that in a line of cases decided since *Kingsdown*, the Federal Circuit has arguably returned to a gross negligence standard. Namely, the Federal Circuit has held that an inference of intent to deceive is appropriate when (1) highly material information is withheld; (2) the applicant knew of the information and *knew or should have known of the materiality* of the information; and (3) the applicant has not provided a credible explanation for the withholding. See, e.g., *Ferring BV v. Barr Labs., Inc.*, 437 F.3d 1181, 1191 (Fed. Cir. 2006); *Bruno Indep. Living Aids, Inc. v. Acorn Mobility Servs., Ltd.*, 394 F.3d 1348, 1354 (Fed. Cir. 2005); *Critikon, Inc. v. Becton Dickinson Vascular Access, Inc.*, 120 F.3d 1253, 1257 (Fed. Cir. 1997).

This “knew or should have known” standard does not comport with the *Kingsdown* decision. Using this standard in cases where a patentee has failed to disclose information to the PTO, courts have held patents unenforceable (upon a finding that the withheld information is highly material) if the patentee fails to

offer a credible explanation for withholding the information. See, e.g., *Ferring*, 437 F.3d at 1192. This burden on the patentee to offer a credible explanation is essentially a gross negligence standard, and its reintroduction post-*Kingsdown* has caused uncertainty in the law of

inequitable conduct, as illustrated by two recently decided cases.

### **Star Scientific v. R.J. Reynolds**

In *Star Scientific, Inc. v. R.J. Reynolds Tobacco Co.*, 537 F.3d 1357 (Fed. Cir. 2008), the Federal Circuit reversed a lower court’s holding of inequitable conduct, finding that the lower court clearly erred when it found deceptive intent based upon insufficient evidence. The patents in suit were directed to a tobacco curing process that lowered the level of certain toxins (“TSNAs”) by drying the tobacco in a controlled environment that did not include exhaust gases and which had sufficient airflow over the tobacco. Prior art curing techniques included drying tobacco in barns and using (1) radiant heat curing, in which hot exhaust is passed through pipes in the barn to heat the tobacco; (2) direct-fired curing, in which fuel is burned and exhaust gases are blown directly into the barn; and (3) indirect-fired curing, in which heated air is forced into the barn in lieu of exhaust gases.

R.J. Reynolds (RJR) charged that Plaintiff committed inequitable conduct by not disclosing to the PTO, *inter alia*, a letter that was sent to Star’s initial prosecuting attorney by Star consultant Dr. Harold Burton (“the Burton letter”) reporting that the probable cause for low TSNA levels in prior art tobacco cured

in China was likely due to use of radiant heat curing. The lower court found the letter “manifestly material” and accepted RJR’s theory that Star deliberately prevented the initial prosecuting attorney from disclosing the Burton letter to the PTO by replacing him with a second attorney and purposely keeping the second attorney ignorant of the Burton letter. See *Star Scientific, Inc. v. R.J. Reynolds Tobacco Co.*, 2007 WL 1890709 \*20 (D. Md. June 26, 2007). The lower court also accorded no weight to Star’s proffered testimony that its purpose for switching prosecuting attorneys was unrelated to the Burton letter.

On appeal, the Federal Circuit held that RJR failed to prove intent by clear and convincing evidence. Notably, the court did not recite the “knew or should have known” standard. Instead, the court stated that an inference of intent to deceive must be the “single most reasonable inference able to be drawn from the evidence...” *Star Scientific*, 537 F.3d at 1367. Using this “new” standard, the Federal Circuit admonished the lower court for shifting the burden to Star to offer a credible explanation for withholding the letter. See *Id.* at 1368-69 (“RJR cannot carry its burden simply because Star failed to prove a credible alternative explanation.”) Thus, as of the Star decision, patentees and practitioners alike were hopeful that the court was again walking away from a gross negligence standard.

### **Praxair v. ATMI**

Yet, just one month later, the Federal Circuit returned to the “knew or should have known” standard in *Praxair, Inc. v. ATMI, Inc.*, 543 F.3d 1306 (Fed. Cir. 2008), when it upheld a lower court’s holding of inequitable conduct. The patent at issue was directed to pressurized storage tanks that limit accidental discharge of hazardous gases

using flow restrictors comprising capillary passages. ATMI asserted that the patentee committed inequitable conduct by failing to disclose information relating to prior art “restricted flow orifice” (RFO) devices, which were commonly used in the art.

Praxair urged that the RFO's were not material, since they were structurally different from the capillaries required by the claims—capillaries were long and narrow passages, whereas RFOs lacked any significant length. The Federal Circuit affirmed the lower court's finding that the structural dissimilarity did not render RFOs immaterial. *Praxair*, 543 F.3d at 1314. Moreover, the Federal Circuit affirmed the lower court's finding that RFO's were highly material in light of four statements made during prosecution: (1) that the prior art did not teach the claimed “extreme limitation in flow”; (2) that existing safety measures were limited to complex methods; (3) that there was no suggestion in the prior art to use “severe flow restriction” to overcome the problems of delivering toxic fluids from portable containers; and (4) that “none” of the prior art discloses a restriction in the flow path that has a diameter less than 0.2mm. *Id.* at 1315-16.

On the issue of intent, the Federal Circuit noted that the prosecuting attorney was aware of RFOs during prosecution, and stated simply that he “[should have been] aware of [their] obvious materiality in light of the four statements quoted above made by him to the examiner.” *Id.* at 1317. Notably, the Federal Circuit upheld the lower court's finding of intent to deceive notwithstanding the fact that the prosecuting attorney testified that he did not knowingly withhold material information from the PTO and that he believed that RFO information would

have been cumulative to the information that had been disclosed. *Id.* Despite the fact that the testimony was several years after prosecution of the patent at issue, the Federal Circuit found the attorney's testimony to be insufficient, since he did not expressly testify that cumulateness was the basis for not disclosing the RFO information and since he did not point to a specific cumulative reference.

### Impact

As illustrated by the *Star Scientific* and *Praxair* cases, the “knew or should have known” standard greatly impacts a patentee's chance of successfully defending a charge of inequitable conduct. In both cases, the patentee proffered testimony denying that he knowingly withheld material information. In both cases, the testimony was held insufficient. Yet, in *Star Scientific*—a case in which the Federal Circuit did not cite the “knew or should have known” standard—the patentee successfully defeated the inequitable conduct attack, whereas in *Praxair* the patentee lost.

*Star Scientific* may be a signal that the Federal Circuit is preparing to revisit the law of inequitable conduct en banc. Recently, Judge Linn expressly called for the court to do so. See *Larson Mfg. v. Aluminart Products Ltd.*, 2009 WL 691322 (Fed. Cir. March 18, 2009) (Linn, J., concurring). Also, a strong petition for writ of certiorari has recently been filed with the Supreme Court requesting it to rule on the seeming disparity between inequitable conduct law and the law of scienter in cases of fraud. See *Petition For Writ Of Certiorari, Aventis Pharma v. Amphastar Pharmaceuticals*, No. 2007-1280 (Fed. Cir. May 14, 2008) (available at <http://www.patentlyo.com/aventis-petition-for-certiorari-final.pdf>). Taken together, these activities signal that inequitable conduct law may undergo a significant change in the near future.

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## Get Your European Community Trademark for Less!

Due to a huge budget surplus, the European Community's Trademark Office has cut the cost of European trademark protection. Effective May 1, 2009, the cost to file and register a trademark in the European Community has been significantly reduced by about 40%. The European Community consists of 27 member countries.

If your business is considering expansion into Europe, now is a great time to consider filing for trademark protection. Please contact Rita E. Kline at (216) 363-4466 or [rkline@beneschlaw.com](mailto:rkline@beneschlaw.com) for questions about your brand portfolio or how your company can take advantage of this cost savings.

# Patent Prosecution by the Numbers: Practical Implications of Recent Developments in Patent Prosecution

Over the last few years, filing and prosecution of patent applications before the United States Patent and Trademark Office (USPTO) has become a lengthier and costlier process. A business-conscious approach to managing the filing and prosecution of patent applications is imperative to protect commercial embodiments important to business success while avoiding excessive pendency and costs.

The average pendency before the USPTO of a U.S. patent application increased from 27.6 months in 2004 to 32.2 months in 2008. USPTO, *Summary of Patent Examining Activities FY 2004 - 2008*, at [http://www.uspto.gov/web/offices/com/annual/2008/oai\\_05\\_wlt\\_01.html](http://www.uspto.gov/web/offices/com/annual/2008/oai_05_wlt_01.html). Increase in the total number of applications filed at the USPTO, from 378,984 in 2004 to 496,762 in 2008 in part explains the increased length in pendency for the typical application. *Id.* And, while the USPTO has made efforts in technology and added staffing to address the additional volume of patent applications, the hiring of new and inexperienced examiners is itself a likely contributor to the increase in pendency. U.S. Gov't Accountability Off., *Report to the Ranking Member, Committee on Oversight and Government Reform, House of Representatives*, Sept. 2007, at <http://www.gao.gov/new.items/d071102.pdf>. In addition, the institution of new procedures at the USPTO under the guise of increasing patent quality as well as recent case decisions from the Court of Appeals for the Federal Circuit (CAFC) and from the Board of Patent Appeals and Interferences (BPAI)

making it easier for patent examiners to reject patent application claims contribute to the longer pendency.

These developments tend to decrease patent allowance rates and increase the number of USPTO office actions necessary to prosecute patent applications to issuance.

## The Allowance Rate Has Significantly Decreased

The USPTO published allowance rate for patent applications, the percentage of patent application that become patents, decreased from approximately 63% in 2004, which is within the historical range, to 44.2% in 2008, which is outside of the historical range for the statistic. USPTO, *Public Session, Patents Public Advisory Committee*, Nov. 7, 2008 at <http://www.ipo.org/AM/Template.cfm?Template=/CM/ContentDisplay.cfm&ContentID=20272&FusePreview=True&WebsiteKey=03f56e92-1ff0-4e7b-9660-d211cf71e103>.

This is the first time that the allowance rate has been lower than 50% for any one year in at least the last 30 years. *Id.* Thus, patent applications fail to become patents at a higher rate now than at any other time in recent USPTO history.

## The Number of Actions Per Disposal Has Risen

Prosecution of patent applications before the USPTO involves one or more office actions allowing or rejecting subject matter claimed. In an office action the examiner indicates what, if anything, in the examiner's determination is patentable. The main goal of the office

action is to move the application closer to disposal. A disposal occurs when the application is abandoned, allowed, appealed to the BPAI, or a Request for Continued Examination is filed.

From 2004 to 2007, the number of actions per disposal increased steadily from approximately 2.27 actions per disposal in 2004 to 2.85 actions per disposal in 2007. *Panel Discusses Impact of USPTO Rules Changes and Patent Reform Legislation on Biotech Patenting*, Posting of Donald Zuhn, to Patent Docs: Biotech and Pharma Patent Law and News Blog (June 23, 2008), at <http://www.patentdocs.org/2008/06/docs-at-bio-pan.html>. The increase in the number of actions per disposal means that each passing year a patent applicant must respond to an increasing number of office actions to prosecute her application to issuance. It also means that the cost of prosecuting the typical application is likely to increase since each additional office action may require additional USPTO and attorney's fees.

## The Use of RCE's Is More Common Now

After a patent applicant has had an opportunity to respond to one or more non-final office actions, the examiner may issue a final office action. To continue prosecution after final, the applicant may file a Request for Continued Examination (RCE). For a fee, an RCE gives the applicant additional opportunity to argue or amend the patent application claims to resolve issues that were not resolved during the original prosecution cycle.

RCE's have more than doubled from 42,000 in 2003 to almost 87,000 in 2007. USPTO, *Annual Reports*, at <http://www.uspto.gov/web/offices/com/annual/index.html> RCE's add to the

number of actions in prosecution, to the length of time between filing of the patent application and issuance of a patent, and to the overall cost of prosecution.

### Appeals to the BPAI Are More Frequent

The number of appeals to the BPAI has also increased. In 2004 the BPAI received 2,469 appeals. USPTO, *BPAI Receipts and Dispositions by Technology Centers for Ex Parte Appeals, FY 2004*, at <http://www.uspto.gov/go/dcom/bpai/docs/receipts/fy2004.htm>. In 2008 the board received 6,385, a 159% increase. USPTO, *BPAI Receipts and Dispositions by Technology Centers for Ex Parte Appeals, FY 2008*, at <http://www.uspto.gov/go/dcom/bpai/docs/receipts/fy2008.htm>. The appeal process is typically costlier than the RCE process mostly because it requires filing of an appeal brief, a relatively complex document that must conform to strict rules relating to content and form. Emails from Ron D. Katznelson, Ph.D., to Susan K. Fawcett, Records Officer, USPTO (Oct. 15, 2007 and Aug. 8, 2008), at [http://www.uspto.gov/web/offices/dcom/bpai/bpai\\_comments/katznelson.pdf](http://www.uspto.gov/web/offices/dcom/bpai/bpai_comments/katznelson.pdf). Also, the appeal process is typically lengthier than RCE's. In 2007, it took on average 18 months from the filing of the appeal brief until the BPAI rendered a decision on appeal. Dennis Crouch, *How long does a BPAI appeal take?*, Patently-O, <http://www.patentlyo.com/patent/2007/09/how-long-does-a.html> (Sept. 17, 2007).

To make matters worse, in recent years appeals have had lower success rates than in years past. In 2008, the BPAI sustained examiners' rejections at least in part 76.1% of the time versus 62.6% of the time in 2004. USPTO BPAI, *Receipts and Dispositions by Technology*

*Centers for Ex Parte Appeals, FY 2004*, at <http://www.uspto.gov/go/dcom/bpai/docs/receipts/fy2004.htm>; FY 2008, at <http://www.uspto.gov/go/dcom/bpai/docs/receipts/fy2008.htm>.

### Forecast

Whether recently granted patents are of a higher quality than their earlier counterparts remains to be seen, and remains the topic for a future article. However, it has certainly become more difficult to obtain patent protection. Moreover, recent decisions from the Court of Appeals for the Federal Circuit such as *KSR v. Teleflex*, 550 U.S. 398 (2007), and *In re Bilski*, 545 F.3d 943 (Fed. Cir. 2008), in the face of the increasing number of patent application filings, tend to indicate that the movement towards lengthier, and thus costlier, patent prosecution is set to continue.

### Business-Conscious Approach

Increased length and cost of prosecution notwithstanding, patents remain an indispensable tool for businesses seeking to protect their costs of development and retaining a competitive advantage. More than ever, businesses seeking to control prosecution cost may heed counsel's advice and consider a business-conscious approach including:

1. Clearly understand the financial and business justification for obtaining patent protection;
2. Conduct thorough prior art searches before filing a patent application to identify relevant prior art and draft claims congruent with the prior art making these claims more readily allowable;
3. Consider using the Accelerated Examination process;

4. Prioritize to enhance protection based on those embodiments of the invention that represent a competitive advantage to the business while perhaps not protecting embodiments that, although patentable, do not add to the bottom line; and
5. Discuss with counsel whether the business model for commercialization of the invention allows for keeping the invention as a trade secret as opposed to patenting.

### Conclusion

In conclusion, recent trends in patent law have made patent prosecution in the U.S. lengthier and costlier. These trends are likely to continue at least in the short term. However, patent protection remains paramount to many business models. A business-conscious approach to patent filing and prosecution may help address issues of increased pendency and cost in patent prosecution.

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# Fraudulent Domain Name Solicitation

Dealing with “cybersquatters,” i.e., those who register, traffic in, or use a domain name with the bad-faith intent to profit from the goodwill of a trademark belonging to someone else, can be a time-consuming and costly ordeal. So, when XYZ Corporation receives an

email from “a concerned domain name registrar” warning it that someone else is trying to register www.xyz.com.cn (and numerous similar domains) and offering XYZ Corporation the

opportunity to intervene, it is easy to understand why the company would be interested in doing so. Unfortunately, more often than not, these so-called concerned domain name registrars are only looking out for their own best interests.

Every Internet domain name, or website address, has several parts. The last portion of a website address, such as “.org” or “.gov”, is called a top-level domain (“TLD”).

The Internet Corporation for Assigned Names and Numbers (“ICANN”), a not-for-profit public-benefit corporation with participants from all over the world, regulates the assignment of Internet domain names in the United States and around the globe. ICANN’s primary objective is ensuring the stability of the Internet’s system of assigned names and numbers. In furtherance of that objective, ICANN requires that every business desiring to become a registrar of ICANN-designated TLDs to first become accredited for this purpose by ICANN.

Accordingly, in order to use the domain name www.xyz.com, XYZ Corporation, who has a trademark in the XYZ brand, must register the domain name with an accredited registrar. However, even if XYZ Corporation successfully registers www.xyz.com, that registration does not

cover any other TLDs, for example those in individual foreign countries. TLDs with two letters have been established for over 250 countries and external territories. XYZ Corporation must separately register any country-specific TLDs it would like to use, e.g., Canada (“.ca”) or Mexico (“.com.mx”), to acquire those Internet addresses.

In order to protect their brands, companies may wish to register their primary Internet addresses in multiple countries. For example, because XYZ Corporation is currently doing business in China, it may wish to register www.xyz.cn or www.xyz.com.cn; and because it may wish to do business in India in the future, it may wish to register www.xyz.in as a protective measure (i.e., to prevent others from unjustly profiting from XYZ Corporation’s brand).

In general, there are no proof of rights requirements to register a domain name. Specifically, accredited registrars do not require a potential domain name registrant to show ownership in any trademarks used in the domain name, nor do they investigate whether an applicant is the true brand owner. Often this can create real issues for a business that does not yet have a presence in a certain foreign country, but where that business may expand in the future, or, on

the other hand, for a business that is already present in a foreign market, but that has not yet registered the country-specific domain name.

Notwithstanding this “first come, first serve” registration process, many companies have received and continue to receive email solicitations from purported registrars or consultants purporting to work for accredited registrars in foreign countries. These emails typically indicate that an overseas entity is attempting to register various incarnations of the receiving company’s domain name in another country. These emails often include incorrect grammar and punctuation, and also create a false sense of urgency, with a need for a speedy reply.

The general consensus is that the majority of these emails are scams, intended to induce companies to register as many domain names as possible at prices far above the normal fees charged if going through an accredited registrar. The solicitors prey on companies’ fear and uncertainty that they may lose rights in those domain names, which often include their key brands, if they do not register with the solicitor immediately. Many companies feel they have no other option but to respond. Indeed, the solicitors almost certainly count on the fact that company officials do not know they can bypass the solicitor and register the domain names in question, if available, directly with an accredited registrar.

In general, companies that receive unsolicited domain name registration emails should not attempt to register any domain names through the email solicitor. In fact, it is often best not to respond to these types of emails at all, as any response will typically only elicit further emails from the solicitor.

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*“The general consensus is that the majority of these emails are scams, intended to induce companies to register as many domain names as possible at prices far above the normal fees charged...”*

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Of course, individual circumstances may vary, and it is possible that not all of these emails are scams. We are happy to assist our clients who have received such emails to determine the best course of action. If it is a close call, we can also engage one of our foreign associates in the country in question for further assistance.

Even if ultimately the best course of action is to ignore the email itself, the receipt of such an email does, however, create a prime opportunity for the recipient to consider its international trademark and domain name portfolio. If an entity does business, or perhaps wishes to do business, in a foreign

market, it should certainly consider whether it would like to register its trademarks and domain names in those countries. If an entity's trademark or trademarked domain name has already been registered in that country, without the entity's permission, there may still be some recourse.

Feel free to contact Susan Clady or Angela Gott (contact information below) to discuss any specific domain name registrar email solicitations that your company has received or for assistance with evaluating your company's international trademark and domain name portfolio.

Susan Clady is an Of Counsel and Angela Gott is an associate with the firm's Intellectual Property Practice Group. Susan can be reached at (216) 363-4152 or [sclady@beneschlaw.com](mailto:sclady@beneschlaw.com) and Angela can be reached at (216) 363-4162 or [agott@beneschlaw.com](mailto:agott@beneschlaw.com)

## Get to Know Jenny L. Sheaffer...



### Jenny L. Sheaffer, Partner

Earlier this year, Benesch welcomed Jenny L. Sheaffer to the firm's Intellectual Property Practice Group. Jenny focuses her practice in the areas of patent litigation and patent prosecution. She has litigation experience in all phases of patent litigation, including pre-filing fact investigation, drafting and filing of complaint and answer, discovery, motion practice, depositions, expert witnesses and settlement agreements in various jurisdictions throughout the U.S. As well, she has experience in appellate and oral argument briefing before the U.S. Court of Appeals for the Federal Circuit. She has also been involved in trademark and trade secret litigation.

Jenny's non-litigation patent experience includes drafting and preparing applications and responses, re-examinations, opinion and due diligence work, and client counseling.

In addition, Jenny has significant experience with chemical patent matters including the areas of polymers, pharmaceuticals, electroplating and synthetic chemistry.

Jenny received her J.D. summa cum laude from Syracuse University College of Law in 1998 and her B.S. in Chemistry from SUNY College of Environmental Science and Forestry at Syracuse in 1995.

## Additional Information

Benesch's Intellectual Property (IP) Practice Group represents clients in protecting their most valuable asset class: their intellectual capital. Whether obtaining intellectual property rights, prosecuting infringement actions, or helping clients exploit their intellectual property rights, the IP Group has the legal training and experience to help clients get the most out of their intellectual capital. In addition, Benesch's IP Group is skilled in counseling clients with respect to IP rights of others and in defending clients in IP actions brought against them in courts and administrative agencies throughout the United States and internationally.

Our intellectual property client base is as broad and diverse as the services we provide. Those clients that rely on our services for IP protection and advice include individual entrepreneurs, universities and other research institutions, early stage companies, high technology businesses, middle market companies, and large multinational corporations. We have served a vast array of industries and businesses including: tire and rubber; fluid handling components and systems; paints and coatings; medical devices; plastics and polymers; liquid crystal displays; advanced lighting; adhesives; vehicle suspension systems; combustion systems; refrigeration systems; communications equipment; dispensing systems; material handling equipment; vehicle braking systems; food processing equipment; power tools; fitness equipment and other consumer goods; financial services; insurance services; music and entertainment; and computer software.

The Benesch IP team has experience in all facets of intellectual property law and practice, with each member possessing a unique set of qualifications to help advance our clients' interests. Many of our attorneys have worked as scientists or engineers in industry, and others have taught law or authored publications that serve as important reference materials to the profession.

We have experience with all forms of intellectual property, including patents, copyrights, trademarks, and trade secrets. Services we provide include patent and trademark drafting and prosecution, advising clients on patent and trademark infringement and validity matters, and drafting intellectual property-related agreements. In addition, Benesch's IP Group has experience in complex patent, trade secret, trademark and copyright litigation.

With the support of Benesch's IP team, our clients are better positioned to preserve and protect new technologies with IP, use and manage their intellectual property thoughtfully, and avoid the IP rights of others so as to avoid unnecessary risk. For additional information about Benesch's IP practice, please contact one of our IP lawyers.

Feel free to pass this *IP Advisory* on to a colleague; please email [jgurney@beneschlaw.com](mailto:jgurney@beneschlaw.com) if you would like to be added to the mailing list.

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