
The IP Management Taskforce™

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The Effect of Recent Patent-Related Court Decisions

The IP Management Taskforce



Supreme Court Decisions

- **KSR International v. Teleflex, 127 S.Ct. 1727 (2007):** Loosened the obviousness test.
- **Facts:**
 - ❑ KSR developed an adjustable pedal for cars which included a modular sensor
 - ❑ Teleflex owned a patent which discloses a position adjustable pedal assembly with an electronic pedal position sensor attached to a fixed pivot point.
 - ❑ Prior art patent taught an adjustable pedal with a fixed pivot point.
 - ❑ District court invalidated the patent as obvious
 - ❑ Federal Circuit reversed, holding that the prior art did not address the problem to be solved by the claim, so one skilled in the art would not use that prior art as a reference.



Supreme Court Decisions

- **KSR International v. Teleflex, 127 S.Ct. 1727 (2007):** Loosened the obviousness test.
- Quotes:
 - **“We begin by rejecting the rigid approach of the Court of Appeals for the Federal Circuit.”**
 - **“The combination of familiar elements according to known methods is likely to be obvious when it does no more than yield predictable results.”**
 - “If a technique has been used to improve one device, and a person of ordinary skill of the art would recognize that it would improve similar devices in the same way, using the technique is obvious unless its application is beyond his or her skill.”



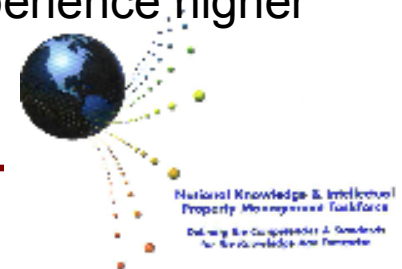
Supreme Court Decisions

- **KSR International v. Teleflex, 127 S.Ct. 1727 (2007):** Loosened the obviousness test.
- Quotes:
 - “As our precedents make clear, however, the analysis need not seek out precise teachings directed to the specific subject matter of the challenged claim, for a court can take account of the inferences and creative steps that a person of ordinary skill in the art would employ.”
 - A court must ask whether the improvement is more than the predictable use of prior art elements according to their established functions.
 - **“Granting patent protection to advances that would occur in the ordinary course without real innovation retards progress and may deprive prior inventions of their value or integrity.”**



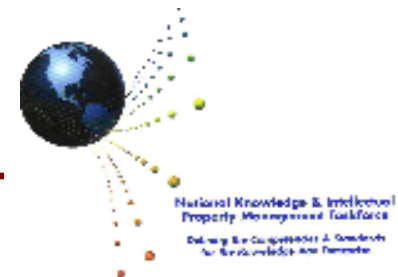
Supreme Court Decisions

- **KSR International v. Teleflex, 127 S.Ct. 1727 (2007):** Loosened the obviousness test.
- Quotes:
 - “When there is a design need or market pressure to solve a problem and there are a finite number of identified, predictable solutions, a person of ordinary skill has good reason to pursue the known options within his or her technical grasp.”
- Possible Effects:
 - No longer rely on the TSM test
 - Harder to get a patent
 - Granted patents may have narrower scope
 - **Many** existing patents may be **invalidated**
 - Infringers more likely to challenge validity
 - Regarding incremental innovation, companies may experience higher costs with less potential patent protection



Supreme Court Decisions

- **Microsoft v. AT&T, 127 S.Ct. 1746(2007):** Exportation of Components.
- **Facts:**
 - ❑ AT&T owns a patent for encoding and compressing recorded speech
 - ❑ Microsoft Windows has the potential to infringe the AT&T patent when installed on a computer
 - ❑ Microsoft sent a “master copy” of Windows overseas to manufacturers
 - ❑ The overseas manufacturers made copies of the master copy and installed those copies on computers made outside the United States
 - ❑ District Court
 - Ruled that Microsoft is liable for infringing AT&T’s patent under 35 USC 271(f)
 - ❑ Federal Circuit affirmed the District Court decision



Supreme Court Decisions

- **Microsoft v. AT&T, 127 S.Ct. 1746(2007):** Exportation of Components. Quotes:
 - 35 USC 271(f)(1)
 - Whoever without authority supplies or causes to be supplied in or from the United States all or a substantial portion of the components of a patented invention, where such components are uncombined in whole or in part, in such manner as to actively induce the combination of such components outside of the United States in a manner that would infringe the patent if such combination occurred within the United States, shall be liable as an infringer.
 - “This case poses two questions: First, when, or in what form, does software qualify as a component under § 271(f)? Second, were components of the foreign-made computers involved in this case supplied by Microsoft from the United States?”



Supreme Court Decisions

- **Microsoft v. AT&T, 127 S.Ct. 1746(2007):** Exportation of Components.
- Quotes:
 - “*Section 271(f)* applies to the supply abroad of the components of a patented invention, where *such components* are uncombined in whole or in part, in such manner as to actively induce the combination of *such components*.”
 - “Until it is expressed as a computer-readable “copy,” e.g., on a CD-ROM, Windows software--indeed any software detached from an activating medium—remains uncombinable... Abstract software code is an idea without physical embodiment, and as such, it does not match § 271(f)'s categorization: components amenable to combination.”
 - “A machine for making sprockets might be used by a manufacturer to produce tens of thousands of sprockets an hour. That does not make the machine a “component“ of the tens of thousands of devices in which the sprockets are incorporated, at least not under any ordinary understanding of the term component.”



Supreme Court Decisions

- **Microsoft v. AT&T, 127 S.Ct. 1746(2007):** Exportation of Components.
- Quotes:
 - “*Section 271(f)* prohibits the supply of components from the United States . . . in such manner as to actively induce the combination of *such components*. Under this formulation, the very components supplied from the United States, and not copies thereof, trigger § 271(f) liability when combined abroad to form the patented invention at issue.”



Supreme Court Decisions

- **Microsoft v. AT&T, 127 S.Ct. 1746(2007):** Exportation of Components.
- Possible Effects:
 - Limited to importation / exportation of components of a patented item
 - A non-infringing master copy of software may be exported overseas to use to make a component of an infringing product
 - Mere software that is not installed and used on a computer is not a component of a patented item



Supreme Court Decisions

- **eBay v. MercExchange, 126 S.Ct. 1837 (2006):** Defined the requirements for Permanent Injunctions and Patent Infringement.
- **Facts:**
 - ❑ MercExchange owns a business method patent for an electronic market designed to facilitate the sale of goods between private individuals
 - ❑ In a jury trial, eBay was found to infringe MercExchange's patent
 - ❑ District Court denied permanent injunctive relief
 - Cited the willingness of MercExchange to license the patent and that MercExchange is a non-practicing entity, therefore MercExchange would not suffer irreparable harm in the absence of an injunction.
 - ❑ Federal Circuit reversed the District Court
 - Held that courts will issue permanent injunctions against patent infringement absent exceptional circumstances



Supreme Court Decisions

- **eBay v. MercExchange, 126 S.Ct. 1837 (2006):** Defined the requirements for Permanent Injunctions and Patent Infringement.
- Quotes:
 - “According to well-established principles of equity, a plaintiff seeking a permanent injunction must satisfy a four-factor test before a court may grant such relief.”
 - “A plaintiff must demonstrate:
 - that it has suffered an irreparable injury;
 - that remedies available at law, such as monetary damages, are inadequate to compensate for that injury;
 - that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and
 - That the public interest would not be disserved by a permanent injunction.



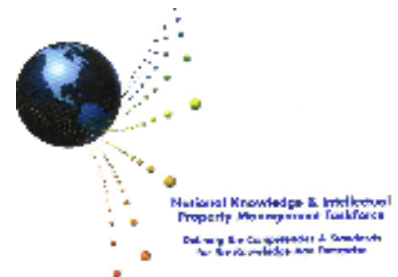
Supreme Court Decisions

- **eBay v. MercExchange, 126 S.Ct. 1837 (2006):** Defined the requirements for Permanent Injunctions and Patent Infringement.
- Quotes:
 - ❑ “As this Court has long recognized, “a major departure from the long tradition of equity practice should not be lightly implied.”
 - ❑ “The Patent Act expressly provides that injunctions “may” issue “in accordance with the principles of equity.”
 - ❑ “The [District Court’s] categorical rule is also in tension with *Continental Paper Bag Co. v. Eastern Paper Bag Co.* which rejected the contention that a court of equity has no jurisdiction to grant injunctive relief to a patent holder who has unreasonably declined to use the patent.”
 - ❑ “We hold only that the decision whether to grant or deny injunctive relief rests within the equitable discretion of the district courts, and that such discretion must be exercised consistent with the traditional principles of equity, in patent disputes no less than in other cases governed by such standards.”



Supreme Court Decisions

- **eBay v. MercExchange, 126 S.Ct. 1837 (2006):** Defined the requirements for Permanent Injunctions and Patent Infringement.
- Possible Effects:
 - ❑ Statistically, the number of permanent injunctions granted since eBay has not decreased
 - ❑ Bargaining position for non-practicing entities is substantially reduced
 - ❑ May be harder to get a preliminary injunction



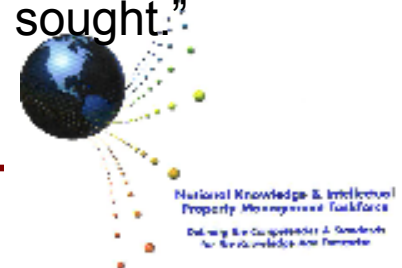
Supreme Court Decisions

- **MedImmune v. Genetch, 127 S.Ct. 764 (2007):** Reduced hurdle for filing a declaratory judgment action.
- **Facts:**
 - ❑ MedImmune entered into a license agreement by which it owed royalties to Genetech for any drugs which may infringe one of Genetech's patents
 - ❑ Genetech subsequently sent a letter to MedImmune expressing its belief that Synagis, a drug manufactured by MedImmune, was covered by a Genetech patent and therefore expected MedImmune to pay royalties
 - ❑ MedImmune considered the letter to be a threat by Genetech to enforce a patent, and filed a Declaratory Judgment action



Supreme Court Decisions

- **MedImmune v. Genentech, 127 S.Ct. 764 (2007):** Reduced hurdle for filing a declaratory judgment action.
- District Court
 - Dismissed the declaratory judgment action for lack of subject matter jurisdiction
 - A patent licensee in good standing cannot establish an Article III case or controversy with regard to validity, enforcement or scope of the patent because the license agreements obliterates any reasonable apprehension that the licensee will be sued for infringement.
- Federal Circuit
 - Affirmed the District Court
- The Declaratory Judgment Act provides that, ‘in a case of actual controversy within its jurisdiction... any court of the United States... may declare the rights and other legal relations of any interested party seeking such declaration, whether or not further relief is or could be sought.’”



Supreme Court Decisions

- **MedImmune v. Genentech, 127 S.Ct. 764 (2007):** Reduced hurdle for filing a declaratory judgment action.
- **Quotes:**
 - “Where threatened action by *government* is concerned, we do not require a plaintiff to expose himself to liability before bringing suit to challenge the basis for the threat.... The plaintiff’s own action in failing to violate the law eliminates the imminent threat of prosecution, but nonetheless does not eliminate Article III jurisdiction.”
 - In *Alvater* we concluded that “the requirements of a case or controversy are met where the payment of a claim is demanded as of right and where payment is made, but where the involuntary or coercive nature of the exaction preserves the right to recover the sums paid or to challenge the legality of the claim.”
 - “We hold that petitioner was not required, insofar as Article III is concerned, to break or terminate its 1997 licensing agreement before seeking a declaratory judgment in federal court that the underlying patent is invalid, unenforceable, or not infringed.”



Supreme Court Decisions

- **MedImmune v. Genetch, 127 S.Ct. 764 (2007):** Reduced hurdle for filing a declaratory judgment action.
- Possible Effects:
 - Easier path to start a declaratory judgment action
 - Suggest adding a contractual barrier to challenge the underlying patents in a license agreement



Supreme Court Decisions

- **Quanta v. LGE, 553 U.S. ____ (2008):** Expanding and defining patent exhaustion.
- **Facts:**
 - LGE owns a patent family directed to microprocessors covering data retrieval, read and write requests and data traffic management
 - LGE licensed the patents to Intel
 - The license stipulated that no license...
 - “is granted by either party hereto... to any third party for the combination by a third party of Licensed products of either party with items, components, or the like acquired... from sources other than a party hereto...”
 - In a separate agreement, Intel was required to disclose to customers that while Intel had a broad license, the customers did not have a license to combine the Intel products with non-Intel products
 - Quanta purchase the Intel products and combined them with non-Intel products, thereby practicing the methods disclosed in the LGE patents



Supreme Court Decisions

- **Quanta v. LGE, 553 U.S. ____ (2008):** Expanding and defining patent exhaustion.
- **Facts:**
 - **District Court**
 - Granted Summary Judgment to Quanta
 - For the purposes of the patent exhaustion doctrine, the license LGE granted to Intel resulted in forfeiture of any potential infringement actions against legitimate purchasers of the Intel products.
 - Although the Intel products do not fully practice any of the patents at issue, they have no reasonable non-infringing use and therefore their authorized sale exhausted patent rights in the completed computers.
 - Patent exhaustion does not apply to method claims
 - **Federal Circuit**
 - Patent exhaustion does not apply to method claims
 - Alternatively, exhaustion does not apply because LGE did not license Intel to sell the Intel products to Quanta for use in combination with non-Intel products.



Supreme Court Decisions

- **Quanta v. LGE, 553 U.S. ____ (2008):** Expanding and defining patent exhaustion.
- **Quotes:**
 - “The longstanding doctrine of patent exhaustion provides that the initial authorized sale of a patented item terminates all patent rights to that item.”
 - “It is true that a patented method may not be sold in the same way as an article or device, but methods nonetheless may be ‘embodied’ in a product, the sale of which exhausts patent rights.”
 - “The sale of a device that practices patent A does not, by virtue of practicing patent A, exhaust patent B. But if the device practices patent *A while substantially embodying* patent B, its relationship to patent A does not prevent exhaustion of patent B.”



Supreme Court Decisions

- **Quanta v. LGE, 553 U.S. ____ (2008):** Expanding and defining patent exhaustion.
- **Quotes:**
 - ❑ “The License Agreement authorized Intel to sell products that practiced the LGE Patents. No conditions limited Intel’s authority to sell products substantially embodying the patents. Because Intel was authorized to sell its products to Quanta, the doctrine of patent exhaustion prevents LGE from further asserting its patent rights with respect to the patents substantially embodied by those products.”
 - ❑ “LGE’s complaint does not include a breach-of-contract claim, and we express no opinion on whether contract damages might be available even though exhaustion operates to eliminate patent damages.
- **Possible Effects:**
 - ❑ Licensing agreements will be drafted with limitations on sales and damages clauses to address unintended sales



Federal Circuit Decisions

- **In re Nuijten, 500 F.3d 1346 (2007):** Transitory Signals and Statutory Subject Matter.
- Facts:
 - ❑ Nuijten owned a patent for reducing distortion in a signal based on a watermark
 - ❑ Claim at issue:
 - A **signal** with embedded supplemental data, the signal being encoded in accordance with a given encoding process and selected samples of the signal representing the supplemental data, and at least one of the samples preceding the selected samples is different from the sample corresponding to the given encoding process.
 - ❑ PTO rejected claims directed to the signal itself
 - The signal has no physical characteristics and merely describes the abstract character of the signal



Federal Circuit Decisions

- **In re Nuijten, 500 F.3d 1346 (2007):** Transitory Signals and Statutory Subject Matter.
- Quotes:
 - “While the claims are limited so as to require *some* physical carrier of information, they do not in any way specify *what* carrier element is to be used.”
 - “Nuijten and the PTO agree that the claims include physical but transitory forms of signal transmission such as radio broadcasts, electrical signals through a wire, and light pulses through a fiber-optic cable, so long as those transmissions convey information encoded in the manner disclosed and claimed by Nuijten. We hold that such transitory embodiments are not directed to statutory subject matter.”
 - “The question of whether the claimed signals are “manufactures” is more difficult. They are man-made, in the sense of having been encoded, generated, and transmitted by artificial means. However, artificiality is insufficient by itself to render something a “manufacture.”



Federal Circuit Decisions

- **In re Nuijten, 500 F.3d 1346 (2007):** Transitory Signals and Statutory Subject Matter.
- Quotes:
 - “The Supreme Court has defined manufacture as the production of *articles* for use from raw or prepared materials by giving to these materials new forms, qualities, properties, or combinations, whether by hand-labor or by machinery.”
- Possible Effects:
 - Still on appeal to the Supreme Court
 - Narrows the available statutory subject matter
 - Claim drafting to include a physical carrier for the transitory signal



Federal Circuit Decisions

- **In re Comiskey, 499 F.3d 1365 (2007):** Mental Processes and Patentable Subject Matter.
- Facts:
 - Comiskey’s patent application included claims directed to a method and system for mandatory arbitration involving legal documents.
 - Claim 1
 - The claimed “program... requires resolution by binding arbitration of any challenge or complaint concerning any unilateral document... [or] contract document.”
 - Claim 32
 - Directed to bilateral documents rather than unilateral documents.
 - PTO – Rejected all claims as obvious in view of prior art.



Federal Circuit Decisions

- **In re Comiskey, 499 F.3d 1365 (2007):** Mental Processes and Patentable Subject Matter.
- Quotes:
 - “The question is whether the method described and claimed is a 'process' within the meaning of the Patent Act.”
 - “The very cases of this court that recognized the patentability of some business methods have reaffirmed that **abstract ideas are not patentable.**”
 - “When an abstract concept has no claimed practical application, it is not patentable.”
 - “As the PTO notes, “[t]he Supreme Court has recognized only two instances in which such a method may qualify as a *section 101* process: **when the process 'either [1] was tied to a particular apparatus or [2] operated to change materials to a 'different state or thing.'**”
 - “Thus, a claim that involves both a mental process and one of the other categories of statutory subject matter (i.e., a machine, manufacture, or composition) may be patentable under § 101.”

□



Federal Circuit Decisions

- **In re Comiskey, 499 F.3d 1365 (2007):** Mental Processes and Patentable Subject Matter.
- Quotes:
 - ❑ “However, mental processes--or processes of human thinking--standing alone are not patentable even if they have practical application.”
 - ❑ “Following the lead of the Supreme Court, this court and our predecessor court have refused to find processes patentable when they merely claimed a mental process standing alone and untied to another category of statutory subject matter even when a practical application was claimed.”
- Possible Effects:
 - ❑ Limits the scope of patentable subject matter.
 - ❑ May invalidate existing patents
 - ❑ Claim drafting to include a mental process and at least one other category of patentable subject matter.



Federal Circuit Decisions

- **In re Seagate, 497 F.3d 1360 (2007):** Redefining willful patent infringement.
- Facts:
 - Convolve sued Seagate alleging willful patent infringement
 - Seagate asserted reliance on opinion of counsel to show lack of wilfulness
 - Subpoena of trial counsel to determine what he told his client
- Quotes:
 - Prior Standard Set forth in *Underwater Devices*
 - “Where... a potential infringer has actual notice of another’s patent rights, he has an affirmative duty to exercise due care to determine whether or not he is infringing. Such an affirmative duty includes, inter alia, the duty to seek and obtain competent legal advice from counsel before the initiation of any possible infringing activity.”
 - “The duty of care announced in *Underwater Devices* sets a lower threshold for willful infringement that is more akin to negligence.”



Federal Circuit Decisions

- **In re Seagate, 497 F.3d 1360 (2007):** Redefining willful patent infringement.
- Quotes:
 - “We overrule the standard set out in *Underwater Devices* and hold that proof of willful infringement permitting enhanced damages requires at least a showing of **objective recklessness**.”
 - “Because we abandon the affirmative duty of due care, we also reemphasize that there is **no affirmative obligation to obtain opinion of counsel**.”
- Possible Effects:
 - Attorney opinions no longer required to defend against willfulness, however they would still be needed to give opinions on business matters
 - Trial counsel’s opinions not admissible, not relevant, because not likely to be objective
 - Willfulness still basis for increase damages, but dissent questions this



Federal Circuit Decisions

- **Phillips v. AWH, 415 F.3d 1303 (2005):** Extrinsic Evidence and Claim Interpretation.
- Facts:
 - ❑ Phillips obtained a patent for modular steel panels which are vandalism resistant
 - ❑ Phillips licensed the technology to AWH
 - ❑ After expiration of the license, Phillips was convinced that AWH continued to sell products covered by his patent
 - ❑ District Court of Colorado
 - No infringement
 - Looking to the specification of the '798 patent, the court noted that “every textual reference in the Specification and its diagrams show baffle deployment at an angle other than 90 degrees to wall faces...”
 - ❑ Original Federal Circuit Decision
 - No infringement
 - Opinion withdrawn for En Banc Hearing



Federal Circuit Decisions

- **Phillips v. AWH, 415 F.3d 1303 (2005):** Extrinsic Evidence and Claim Interpretation.
- Quotes:
 - “The ordinary and customary meaning of a claim term is the meaning that the term would have to a person of ordinary skill in the art in question at the time of the invention.”
 - “Importantly, the person of ordinary skill in the art is deemed to read the claim term not only in the context of the particular claim in which the disputed term appears, but in the context of the entire patent, including the specification.”
 - Sources include “the words of the claims themselves, the remainder of the specification, the prosecution history, and extrinsic evidence concerning relevant scientific principles, the meaning of technical terms, and the state of the art.”
 - “The prosecution history, which we have designated as part of the “intrinsic evidence,” consists of the complete record of the proceedings before the PTO and includes the prior art cited during the examination of the patent. Like the specification, the prosecution history provides evidence of how the PTO and the inventor understood the patent.”



Federal Circuit Decisions

- **Phillips v. AWH, 415 F.3d 1303 (2005):** Extrinsic Evidence and Claim Interpretation.
- Quotes:
 - “While extrinsic evidence ‘can shed useful light on the relevant art,’ we have explained that it is ‘less significant than the extrinsic record in determining the legally operative meaning of claim language.’”
 - “Extrinsic evidence may be useful to the court, but it is unlikely to result in a reliable interpretation of patent claim scope unless considered in the context of the intrinsic evidence.”
- Possible Effects:
 - Increased cost of patent drafting to ensure appropriate claim term interpretation
 - Existing patent claims may be read broader or narrower than intended based on the disclosure in the specification.
 - Claims are more likely to be narrowed because of the way the rest of the patent is written



Federal Circuit Decisions

- **Poly-America v. GSE Lining Tech, 383 F.3d 1303 (2004):** Lost Profits and Corporate Structure.
- Facts:
 - ❑ Poly-America owns US Patents directed to a three layered textured landfill liner and a method o making such a liner.
 - ❑ Poly-American licenses the patents to a sister corporation Poly-Flex for a royalty
 - ❑ Poly-America and Poly-Flex are separate corporate entities owned by a common parent corporation.



Federal Circuit Decisions

- **Poly-America v. GSE Lining Tech, 383 F.3d 1303 (2004):** Lost Profits and Corporate Structure.
- Quotes:
 - “Even though Poly-America and Poly-Flex seem to share interests as two entities collaborating in the manufacture and sale of textured landfill liners, that relationship by itself is not sufficient to permit Poly-America to claim Poly-Flex's lost profits from Poly-Flex's lost sales. Poly-America and Poly-Flex have a common parent corporation and are not simply divisions of a single corporation, but are separate corporate entities.
 - “While Poly-America may have the right to sue under its patents, both as an owner and as a back-licensee, it can recover only its own lost profits, not Poly-Flex's.”
 - “We have held that a licensee generally may not sue for damages unless it has exclusive rights under a patent, including the right to sue. Poly-Flex does not have exclusive rights. It is clearly identified in the license agreement as a non-exclusive licensee, and as such, it received only a "bare license" and has no entitlement under the patent statutes to itself collect lost profits damages for any losses it incurred due to infringement.”



Federal Circuit Decisions

- **Poly-America v. GSE Lining Tech, 383 F.3d 1303 (2004):** Lost Profits and Corporate Structure.
- Possible Effects:
 - Dividing ownership and use of patents between two corporate entities owned by a common parent may jeopardize right to recover damages for infringement
 - Corporations may have to reassess their corporate structure and internal licensing agreements in order to maximize potential damages in litigation.



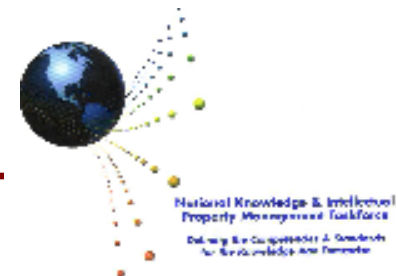
Federal Circuit Decisions

- **Mars v. Coin Acceptors, 2008 U.S. App. LEXIS 11707** : Lost Profits and Corporate Structure.
- Facts:
 - Mars owned a patent directed to vending machine coin changers.
 - Mars never produced any coin changers, but gave a non-exclusive license to a wholly owned subsidiary MEI
 - License agreement gave MEI a straight license requiring payment regardless of profit
 - District Court
 - Summary Judgment for Coin Acceptors on lost profits award
 - Federal Circuit affirms



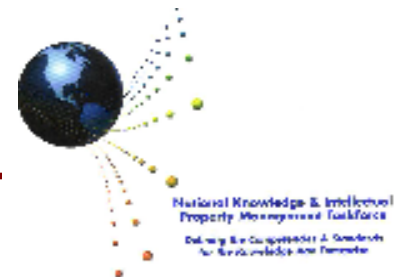
Federal Circuit Decisions

- **Mars v. Coin Acceptors, 2008 U.S. App. LEXIS 11707** : Lost Profits and Corporate Structure.
- Quotes:
 - "In patent cases, as in other commercial torts, damages are measured by inquiring: had the tortfeasor not committed the wrong, what would have been the financial position of the person wronged?"
 - "While the statutory text states tersely that the patentee receive 'adequate' damages, the Supreme Court has interpreted this to mean that 'adequate' damages should approximate those damages that will *fully compensate* the patentee for infringement."
 - **"Because we conclude that MEI's profits did not—as Mars argued--flow inexorably to Mars, we, like the *Poly-America* court, need not decide whether a parent company can recover on a lost profits theory when profits of a subsidiary actually *do* flow inexorably up to the parent."**



Federal Circuit Decisions

- **Mars v. Coin Acceptors, 2008 U.S. App. LEXIS 11707** : Lost Profits and Corporate Structure.
- Possible Effects:
 - Corporations may have to reassess their corporate structure and internal licensing agreements in order to maximize potential damages in litigation.
 - A license back to a parent company must be exclusive to give standing
 - Can fix the mistake during trial if you reassign title to the plaintiff (assigning right to sue is not enough)



Federal Circuit Decisions

- **SanDisk v. STMicroelectronics, 480 F.3d 1372 (2007):** Availability of Declaratory Judgment actions.
- Facts:
 - ❑ SanDisk owns several patents related to flash memory storage products
 - ❑ STMicroelectronics owns several patents related to flash memory storage products
 - ❑ SanDisk and STMicroelectronics had cross-license negotiation meetings during which they presented their patents and how the other party infringed those patents
 - ❑ SanDisk and STMicroelectronics each stated that they had no intention of filing suit at this time.
 - ❑ After some negotiations, SanDisk filed a declaratory action seeking a finding of non-infringement and invalidity.
 - ❑ District Court
 - Dismissed the action
 - There was no case or controversy



Federal Circuit Decisions

- **SanDisk v. STMicroelectronics, 480 F.3d 1372 (2007):** Availability of Declaratory Judgment actions
- Quotes:
 - “In the context of conduct prior to the existence of a license, declaratory judgment jurisdiction generally will not arise merely on the basis that a party learns of the existence of a patent owned by another or even perceives such a patent to pose a risk of infringement, without some affirmative act by the patentee.”
 - “Article III jurisdiction may be met where the patentee takes a position that puts the declaratory judgment plaintiff in the position of either pursuing arguably illegal behavior or abandoning that which he claims a right to do.”



Federal Circuit Decisions

- **SanDisk v. STMicroelectronics, 480 F.3d 1372 (2007):** Availability of Declaratory Judgment actions
- Quotes:
 - “We hold only that where a patentee asserts rights under a patent based on certain identified ongoing or planned activity of another party, and where that party contends that it has the right to engage in the accused activity without license, an Article III case or controversy will arise and the party need not risk a suit for infringement by engaging in the identified activity before seeking a declaration of its legal rights.”
- Possible Effects:
 - Patent owners have to exercise caution in contacting potential licensees for a patent or they may expose themselves to a declaratory judgment action
 - Potential for reducing unsolicited offers to license



Federal Circuit Decisions

- **SanDisk v. STMicroelectronics, 480 F.3d 1372 (2007):** Availability of Declaratory Judgment actions
- Possible Effects:
 - Patent owners have to exercise caution in contacting potential licensees for a patent or they may expose themselves to a declaratory judgment action
 - Potential for reducing unsolicited offers to license
 - Dissent: “Despite the references in the court’s opinion to the particular facts of this case, I can see no practical stopping point short of allowing declaratory judgment actions in virtually any case in which the recipient of the invitation to take a patent license elects to dispute the need for a license and then sue the patentee.”



Federal Circuit Decisions

- **BMC Resources v. Paymentech, 498 F.3d 1373 (2007):** Single Direct Infringer.
- Facts:
 - BMC is the assignee of two patents claiming methods for processing debit transactions without a person identification number (PIN); customer pays bills with touch tone phone
 - Paymentech processes financial transactions for clients as a third party **(look at claim in case)**
 - District Court
 - Summary Judgment of Non-Infringement
 - Paymentech performs, but not all the steps of the asserted claims
 - Federal Circuit affirms
 - Paymentech merely provided information. No instruction given to, or contract with, financial institutions or debit networks. Thus, Paymentech had no control over them.



Federal Circuit Decisions

- **BMC Resources v. Paymentech, 498 F.3d 1373 (2007):** Single Direct Infringer.
 - “In this situation, neither the financial institutions, the debit networks, nor the payment services provider, Paymentech, bears responsibility for the action of the other.”



Federal Circuit Decisions

- **BMC Resources v. Paymentech, 498 F.3d 1373 (2007):** Single Direct Infringer.
Quotes:
 - “The case presents the issue of the proper standard for joint infringement by multiple parties of a single claim.”
 - “Where a defendant participates in infringement but does not directly infringe the patent, the law provides remedies under principles of indirect infringement.”
 - “This court has held that inducement of infringement requires a predicate finding of direct infringement.”
 - “Courts faced with a divided infringement theory have also generally refused to find liability whereon party did not control or direct each step of the patent process.”
 - **“In this situation, neither the financial institutions, the debit networks, nor the payment services provider, Paymentech, bears responsibility for the action of the other.”**



Federal Circuit Decisions

- **BMC Resources v. Paymentech, 498 F.3d 1373 (2007):** Single Direct Infringer.

Quotes:

- A party cannot avoid infringement ... simply by contracting out steps of a patented process...In those cases, the party in control would be liable for direct infringement.”
- “A patentee can usually structure a claim to capture infringement by a single party.”
- “This court will not unilaterally restructure the claim or the standards for joint infringement to remedy these ill-conceived claims.”

- Possible Effects:

- Joint infringement will now require a single direct infringer.
- Revised claim drafting techniques for method claims to address the single direct infringer.

