CHAPTER TWELVE

HOT TOPICS IN PATENT LITIGATION: THE ANTITRUST / PATENT INTERFACE, UNCERTAIN CERTAINTY IN THE ON-SALE BAR, AND THE RESURRECTION OF PROSECUTION LACHES

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HOT TOPICS IN PATENT LITIGATION: THE ANTITRUST / PATENT INTERFACE, THE RESURRECTION OF PROSECUTION LACHES, AND NEW CERTAINTY IN THE ON-SALE BAR

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I. INTRODUCTION

Through this paper, the authors will not only describe what is "hot" today in litigation, but also will endeavor to look into the future to describe what will be "hot" next year, and in the years ahead, at this WSBA conference. This paper seeks to be both reflective and predictive, drawing on the trends of the past to foretell the cases of interest in the future. To that end we seek to describe not just what is "hot," but what we think can be characterized as "temperature rising." Finally, because the focus is on litigation, each topic will explore litigation strategies that reflect these recent changes to the law.

The "hot topics" summarized and addressed are trends affecting the Antitrust / Patent interface, recent changes in on-sale bar case law, and the recent resurgence of the prosecution laches defense.

II. HOT TOPIC #1: THE ANTITRUST / PATENT INTERFACE

One of the most apparent trends portending to impact the future of patent litigation is the renewed interest, on the part of government and private parties alike, in using the antitrust laws as part of an IP strategy. Recognition that the antitrust regulators believe that the pendulum may have swung too far to the side of Intellectual Property owners' rights is apparent from the speech in which Federal Trade Commission Chairman Timothy J. Muris' announced plans for the current FTC and Department of Justice hearings on "Competition and Intellectual Property Law and Policy in the Knowledge-Based Economy" ("FTC/DOJ hearings").

In his November 15, 2001, speech before the American Bar Association Antitrust Section Fall Forum,[1] Chairman Muris expressly recognized the dynamic nature of the line that defines the Antitrust / Patent interface. He acknowledged what many thought was the dominance of antitrust policy over Intellectual Property in the '70s[2]:

> Antitrust law and policy have dramatically improved since the 1970s. That decade saw the infamous "Nine No-Nos," which many of us argued lacked both a sound economic foundation and a sufficient appreciation of the incentives for innovation that intellectual property and intellectual property licensing can provide.

At the same time he suggested that the swing toward respecting Intellectual Property rights might have reached its peak[3]:

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1 Timothy J. Muris, "Competition and Intellectual Property Policy: The Way Ahead," Remarks Before the American Bar Association, Antitrust Section Fall Forum (Washington, DC, November 15, 2001) *available at* http://www.ftc.gov/speeches/muris/intellectual.htm.

2 *Id.*

3 *Id.*

> Where are we now, in 2001, when so much of the world seems to be changing so quickly? There are those observers - including my predecessor, Robert Pitofsky - who ask whether we might be at yet another crossroads in the relationship between the two doctrines. Only this time, they say, perhaps it is intellectual property doctrine that is not showing a proper appreciation for the innovation that competition may spur. They argue that overly broad grants, interpretations, or applications of intellectual property rights may unduly limit competition. Still others question whether antitrust doctrine and antitrust enforcers have yet found the right balance between the two doctrines - especially in particular cases.

Highlighted in his announcement of the FTC/DOJ hearings were five "notable developments" in the Intellectual Property and Antitrust systems, according to Chairman Muris. These are[4]:

- The Increasing Number of Patents
- The Economic Life and Significance of Patents
- The Changing Scope of Patents
- The Role of the Federal Circuit
- Refusals to Deal

The first point — the increasing number of patents — relates to the fact that the U.S. Patent and Trademark Office is issuing far more patents today than it did 20 years ago. Chairman Muris noted that PTO statistics show that in 1980 about 66,000 patents issued, whereas in 2000 the number increased to over 175,000 U.S. patents.[5] Some have considered the increase in the number of patents issued as a bad thing, calling it a "patent thicket":[6]

> In short, our patent system, while surely a spur to innovation overall, is in danger of imposing an unnecessary drag on innovation by enabling multiple rights owners to "tax" new products, processes and even business methods. The vast number of patents currently being issued creates a very real danger that a single product or service will infringe on many patents. Worse yet, many patents cover products or processes already being widely used when the patent issued, making it harder for the companies actually building businesses and manufacturing products

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[4] *Id.*

[5] *Id., citing*, United States Patent and Trademark Office, U.S. Patent Statistics, *available at* http://www.uspto.gov/web/offices/ac/ido/oeip/taf/apat.pdf. This Technology Assessment and Forecast (TAF) report profiles patent activity for all U.S. patents granted between January 1, 1977 and December 31, 2000. The source of the data used for this report was the TAF database maintained by the Office for Patent and Trademark Information. It contains a rich compilation of information concerning patents granted by company, country of origin, year of issuance, and year of application.

[6] Carl Shapiro, "Navigating the Patent Thicket: Cross Licenses, Patent Pools, and Standard-Setting," *available at* <http://haas.berkeley.edu/~shapiro/thicket.pdf>.

> to invent around these patents. Add in the fact that a patent holder can seek injunctive relief, *i.e.*, can threaten to shut down the operations of the infringing company, and the possibility for "hold up" becomes all too real.

Others have downplayed the fear of a "patent thicket," noting that it is only in a very small percentage of cases that patented ideas "survive the product development cost burdens, the manufacturing problems, the marketing problems, and the other rigors of getting them into an actual product."[7] Said the Former Commissioner of Patents and Trademarks[8]:

> Also, I think a lot of the arguments about thickets, unfortunately, tend to seem to rest, at least the ones that I've heard, on fairly anecdotal evidence, where patents are categorized as broad or overbroad, either through [an] expansive reading of the patent, maybe the abstract, maybe the press releases in some cases I've noted when companies obtain patents.
>
> It should be reminded that the claims of the patents are the only thing that have a legal effect, and as the Commission and the Department and others study this, I think they need to make sure they get below the surface to a lot of these arguments to the reality of them.
>
> Of course it is indeed possible, maybe even likely, that thickets might exist in certain areas, but I think we have to take them in many cases on a case-by-case basis.

Thus the focus of the FTC/DOJ hearings on this point is to understand the reason for the increase in patents, to determine if and how this impacts the commercialization of new technology, and "[i]f the central approaches to navigating a patent thicket involve cross-licenses and patent pooling, [determining] how should antitrust enforcement react to these practices."[9] The ongoing hearings also intend to focus on standards setting, and to explore the extent to which the "patent thicket" affects standard setting activities "when access to multiple patents in the hands of different patentees may be required to develop and implement a technological standard."[10]

A study of the "Economic Life and Significance of Patents" focuses on a point well known to patent lawyers and patent owners for some time: recognition that the *legal term* of a patent is far different from that period (if any) during which the patent provides an economic benefit to the patentee. Even this divergence can perhaps extend both ways, according to Chairman Muris, and this is a subject to be explored:

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7 Q. Todd Dickinson, Remarks, "Public Hearing on Competition and Intellectual Property Law and Policy in the Knowledge Based Economy" (Washington, D.C., February 8, 2002) (hereafter "February 8 Hearing", pages 56-57, *available at* http://www.ftc.gov/opp/intellect/20208iptrans2.pdf.

8 *Id.* At pages 63-64.

9 Muris, *supra note* 1.

10 *Id.*

> In some industries, moreover, the economic life of patents may be increasingly shortened due to the pace of innovation. If so, does this phenomenon have competitive implications? Another issue to consider is whether, in some industries, strong technology companies can extend the economic significance of patents beyond their corresponding legal lives. We need to understand how the economic significance of patents can be extended to determine whether conduct that extends economic significance benefits consumers.

One of the speakers at the opening session of the FTC/DOJ hearings was Hon. Pauline Newman, Circuit Judge on the Federal Circuit. She gave a succinct summary on the value of patents as shown by the history of technology, innovation, and economic growth, and pointed out that at the time of formation of the Federal Circuit, our emphasis on innovation had waned, as had our national economy:[11]

> Patents cover only things that are new, things that were unknown before the patentee discovered them and disclosed them. The technologies have driven the economy since the Industrial Revolution have all invoked the commercial incentive of patents. There are, I'm told, no exceptions, from the cotton gin to the electric light, the airplane.
>
> As soon as the inventor showed the way, the entrepreneurial spirits of the nation took hold, and the copiers appeared, and litigation ensued. All the major patents have been through the courts.
>
> The economic role of patents was studied as well as it might be at the time of the formation of the Federal Circuit court. You may recall that in the late 1970s, the economy of the nation was at a low point. Investment in basic science and in applied research had disappeared. There were mass layoffs of scientists and engineers. I recall the revolution in the American Chemical Society to try to somehow adjust or interact with what was happening to scientists who had studied and were jobless.
>
> Our production in the United States was no longer competitive. Old technologies were stagnant. New ones were dormant, and the balance of trade had turned negative for the first time perhaps in our national history. Only technology-based industry made a positive contribution, and there was concern, real concern, that national policies were not attuned to the needs of this industry, that we had created disincentives to industrial innovation.

Since that time, Judge Newman pointed out, the tension between the antitrust laws and the patent laws "was rebalanced" with an emphasis on industrial innovation. As a result, our national economy today is even more dependent on technology and on the advance of technology-based

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[11] Pauline Newman, Remarks, "February 8, hearing", *supra note* 7, pages 42-43.

industry than it was just 20 years ago. Without explicitly stating that there is a cause-effect relationship, Judge Newman then stated:[12]

> Also during that period we've experienced the most creative, energetic, entrepreneurial surge since the Industrial Revolution because manufacturers are involved. I'm afraid our court can't take all the credit, but I would like to. The creation of our court was a major step that was taken as part of the design to restore the statutory and indeed the constitutional role of intellectual property.
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> * * *
>
> One of the things that I have noticed since I've been on the court is that the investors, the businesses that have been built on technology, seem to understand what I call the risk return principles of the patent system often far better than the legal system has.
>
> This commercial reality is seen in every patent in litigation, and it does contravene some of what I've read being written by the theorists. For example, one sometimes reads, in studies of the patent system, that most patents are on minor changes. That's true. But the conclusion ensues that they aren't worth very much, why bother.
>
> Yet in our court we often see patent litigation on what look like relatively minor advances in relatively small industries, but the business they support must be worth at least the hundreds of thousands or the millions of dollars that the litigation costs.
>
> Each minor advance leads to the next one, to perhaps what's called a leapfrogging advance by a competitor adding the diversity and competitiveness, instead of the stagnation that we now see in industries where innovation is absent.
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> * * *
>
> In the courtroom, each case presents a different set of relationships. The litigation is almost always between competitors, the innovator and often a copier. Litigation occurs after the invention has been developed, after it's been shown to be successful in the marketplace.
>
> Only the successes are copied. The creation and the marketing of something new is much rarer, much harder than moving in after it's been proven out. It's for this reason that I say that the intellectual property laws are much broader impact than is measured by market competition, and I am pleased to see on the F.T.C.'s web page that you are receiving submissions on this broader impact.

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12 *Id.*, pages 45-48.

Chairman Muris' speech announcing the FTC/DOJ hearings faced the issue of the scope of patents head on. "[S]ome observers allege," he said, "that, all too often, important patents — especially in biotechnology and software — are overbroad, and that overbroad patents can inhibit follow-on innovation."[13] Surprisingly, he cited to a 1991 article[14] that long predated much of the current debate.[15] No discussion of this topic could be free from debate over business method patents. "The explosion of business method patents is also controversial," he noted. His talk to the Antitrust Section recognized the PTO position, saying, that the "PTO sees the recognition of business method patents as the logical continuation of an unbroken evolutionary path from mechanical technology."[16] He recognized the other view, too, saying:

> Others have contended that the PTO has "allowed a number of patents on ideas that would not appear *offhand* to meet the usual standards for novelty and non-obviousness, such as the patent held by Sightsound.com *which reputedly covers* 'the sale of audio or video recordings in download fashion over the Internet.'"[17]

The language emphasized above, quoted by the authors of this paper, underscore the importance of Former Commissioner's Dickinson's comments, quoted above, that "the claims of the patents are the only thing that have a legal effect," urging that the FTC and DOJ "make sure they get below the surface to a lot of these arguments to the reality of them." In the authors' view, discussion of what a patent "reputedly covers" is of no serious assistance in analysis of PTO practices or sound national economic policy. Nevertheless, with this backdrop Chairman Muris announced the goal for this aspect of the FTC/DOJ hearings[18]:

> Obvious questions arise: Has the recent explosion of business method patents reflected a commensurate increase in innovation? Or are such patents stifling, rather than promoting, innovation? What changes in procedure and presumptions have strengthened intellectual property rights during the past two decades? What have been the implications of these changes for both competition and intellectual property policy?

The role of the Federal Circuit is inextricably intertwined with other aspects of the role of these hearings, including the discussion of refusals to deal. The Federal Circuit's 2000 decision in

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13 Muris, *supra note* 1.

14 Suzanne Scotchmer, "Standing on the Shoulders of Giants: Cumulative Research and the Patent Law," 5 J. Econ. Persp. 29 (1991).

15 Chairman Muris also recognized the contrary view, noting, "Others contend that broad patents are essential to encourage high-risk research in entirely new fields." Muris, *supra note* 1.

16 *Id.*, *citing*, United States Patent and Trademark Office, "Automated Financial or Management Data Process Methods (Business Methods)," *available at* http://www.uspto.gov/web/menu/busmethp/index.html.

17 *Id.*, *citing*, Shapiro, *supra note* 6.

18 *Id.*

CSU v. Xerox[19] may have done as much to heighten interest in the Antitrust / Patent interface as any recent event.

The case involved a refusal to deal. Xerox had a policy of not selling parts for certain copiers to independent service organizations ("ISOs"), including defendant CSU, unless they were also end-users of the copiers. Over time the policy was expanded to include more copiers, and the enforcement was tightened. The ISOs were forced to obtain parts from various alternative sources, including customers, other ISOs, and for a time from Rank/Xerox, a majority-owned European affiliate of Xerox. Xerox ultimately forced Rank Xerox to stop selling parts to CSU and other ISOs.

A class action suit brought against Xerox by a number of ISOs was settled, with Xerox agreeing to suspend its restrictive parts policy for 6-1/2 years. CSU opted out of the settlement and sued Xerox on antitrust grounds.

Xerox counterclaimed for patent and copyright infringement, and IT contested CSU's antitrust claims as relying on injury solely caused by Xerox's lawful refusal to sell or license patented parts and copyrighted software. Xerox also claimed that CSU could not assert a patent or copyright misuse defense to Xerox's infringement counterclaims based on Xerox's refusal to deal.

The district court granted summary judgment to Xerox. It dismissed CSU's antitrust claims and held that if a patent or copyright is lawfully acquired, the patent or copyright holder's unilateral refusal to sell or license its patented invention or copyrighted expression is not unlawful exclusionary conduct under the antitrust laws, even if the refusal to deal impacts competition in more than one market. The district court also held, in both the patent and copyright contexts, that the right holder's intent in refusing to deal and any other alleged exclusionary acts committed by the right holder are irrelevant to antitrust law.

The controversial appeal to the Federal Circuit followed.

The Federal Circuit first noted that, "as a general proposition," it will be guided by the antitrust law of the regional circuits rather than its own view of the Antitrust / Patent interface.[20] The Court added, "We apply our own law, not regional circuit law, to resolve issues that clearly involve our exclusive jurisdiction."[21] Quoting its own decision in *Nobelpharma*[22] the Court then said, "Whether conduct in procuring or enforcing a patent is sufficient to strip a patentee of its immunity from the antitrust laws is to be decided as a question of Federal Circuit law."[23] With that authority the Federal Circuit held that the district court's grant of summary judgment as to

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19 *In re Independent Service Organizations Antitrust Litigation*, 203 F.3d 1322, 53 USPQ2d 1852 (Fed. Cir. 2000), *cert. denied*, *CSU, L.L.C. v. Xerox Corp*., 121 S.Ct. 1077 (2001).

20 *Id.*, 53 U.S.P.Q.2d at 1854.

21 *Id.*

22 *Nobelpharma AB v. Implant Innovations, Inc.,* 141 F.3d 1059, 1068, 46 USPQ2d 1097, 1104 (Fed. Cir. 1998).

23 *CSU v. Xerox*, 53 U.S.P.Q.2d at 1854.

CSU's antitrust claims arising from Xerox's refusal to sell its patented parts would be reviewed under Federal Circuit law, not Tenth Circuit law.[24] The decision of the Federal Circuit to employ its own view of this important interface, as opposed to defer to the regional circuit from which the case arose, generated much interest, and will be one of the subjects of the FTC/DOJ hearings. As stated by Chairman Muris[25]:

> Since its inception, the Federal Circuit's scope has grown in at least two ways: through its expanding jurisdiction over antitrust issues and through the court's application of its own law rather than regional circuit law. Because patent and competition issues frequently arise together, the Federal Circuit can play an increasingly important role in the development of competition law. During the hearings, we will consider the Federal Circuit's substantive impact on competition law. That impact is defined, in the first instance, by its decisions regarding its jurisdictional scope. In the second instance, the court's choice of law defines its impact. I will discuss each point briefly.
>
> . . . The Federal Circuit, while sitting *en banc* in *Atari v. JS & A Group*, has itself stated that "Achievement of increased uniformity in the substantive law of patents does not require that this court get its hands on every appeal involving an allegation that a patent law issue is somehow involved."[26] My purpose here is not to revisit how that line has been drawn in any one case, but rather to underscore what the Federal Circuit itself recognizes: some of its own jurisdictional rulings could promote forum shopping with regard to non-patent issues, including antitrust issues.
>
> Once the Federal Circuit asserts jurisdiction over a case with non-patent issues, the question then becomes which body of law the court will apply — the law from the regional circuit or Federal Circuit law? The Federal Circuit's initial response was to apply the regional circuit law, but during the past few years it has changed its position. The court now states that it has "abandon[ed its] practice of applying regional circuit law in resolving questions involving the relationship between patent law and other federal and state law rights. Henceforth, [the Federal Circuit] will apply [its] own law to such questions."[27] Consistent with that general approach, the Federal Circuit had already issued a more specific ruling that "all antitrust claims premised on the bringing of a patent infringement suit" will be decided as a question of Federal Circuit law.[28]

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[24] Consideration of the antitrust claim based on Xerox's refusal to sell or license its copyrighted manuals and software remained for review under Tenth Circuit law.

[25] Muris, *supra note* 1. Most references have been admitted; those included are in the original.

[26] *Atari, Inc. v. JS & A Group, Inc.*, 747 F.2d 1422, 1429 (Fed. Cir. 1984), *overruled on other grounds in Nobelpharma AB v. Implant Innovations, Inc.*, 141 F.3d 1059 (Fed. Cir. 1998).

[27] *Midwest Indus., Inc. v. Karavan Trailers, Inc.*, 175 F.3d 1356, 1358-59 (Fed. Cir. 1999), *overruling Cable Elec. Products, Inc. v. Genmark, Inc.*, 770 F.2d 1015 (Fed. Cir.1985).

[28] *Nobelpharma AB*, 141 F.3d at 1068

> The Federal Circuit's role in adjudicating competition matters is both complex and evolving. It is thus appropriate to examine how the creation of the Federal Circuit, the development of its law and policy, its expansion of its jurisdiction, and its application of its own law affect the balance between intellectual property and antitrust.

CSU v. Xerox was not controversial only for its jurisdictional and choice-of-law holding, but rather it was criticized for its substantive holding on the antitrust aspects of the case as well. Despite the seemingly clear language of 35 U.S.C. §271(d)(4)[29], numerous amicus curiae briefs were sought and submitted to the Federal Circuit. In one such brief, submitted by the American Intellectual Property Law Association (AIPLA), the group noted that the statute, by its terms, creates a qualified immunity from misuse liability for patent-related refusals to deal.[30] Added the organization, "Because misuse relates to antitrust as a lesser included offense relates to its greater, including offense, it would be irrational and impossible for the law to excuse patentees from misuse while simultaneously subjecting them to antitrust liability for the same act."[31]

The Federal Circuit agreed. Noting that this was not in any way a "tying" case, the Court said[32]:

> We see no more reason to inquire into the subjective motivation of Xerox in refusing to sell or license its patented works than we found in evaluating the subjective motivation of a patentee in bringing suit to enforce that same right. In the absence of any indication of illegal tying, fraud in the Patent and Trademark Office, or sham litigation, the patent holder may enforce the statutory right to exclude others from making, using, or selling the claimed invention free from liability under the antitrust laws. We therefore will not inquire into his subjective motivation for exerting his statutory rights, even though his refusal to sell or license his patented invention may have an anticompetitive effect, so long as that anticompetitive effect is not illegally extended beyond the statutory patent grant.

On a petition for writ of *certiorari,* the Supreme Court asked the Clinton Administration for its views on the decision. The Question Presented was whether a unilateral refusal to license or sell intellectual property protected by patent or copyright is immune from a claim of monopolization or attempted monopolization. The Department of Justice recognized that this is an "important

29 It reads: "(d) No patent owner otherwise entitled to relief for infringement … shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following: (4) refused to license or use any rights to the patent …"

30 Brief for *Amicus Curiae* American Intellectual Property Law Association, *CSU, L.L.C. v. Xerox Corporation*, Appeal No. 99-1323 (Fed. Cir. July 15, 1999), *available at* http://www.aipla.org/html/xeroxbr.html.

31 *Id.*

32 *CSU v. Xerox*, 53 U.S.P.Q.2d at 1856.

issue" that "may well warrant the Court's resolution in an appropriate case."[33] The Department of Justice continued, "But precisely because that issue has such broad potential implications, it is particularly important that this Court choose the appropriate vehicle for resolution of the difficult questions implicated by the intersection of antitrust law and patent law. In our view, this case does not present that vehicle."[34]

The Supreme Court denied *certiorari.*

And the debate continues. As Chairman Muris stated in announcing the FTC/DOJ hearings[35]:

> [P]erspectives on *CSU v. Xerox* continue to provoke debate: under what circumstances should there be limits on the rights of patent or copyright holders to refuse to deal? Should 35 U.S.C. § 271(d)(4) be changed or reinterpreted to reflect competition considerations? What are the implications for competition policy and innovation? These are among the issues that we will study in our upcoming hearings.

III. HOT TOPIC #2: THE ON-SALE BAR

In 1998, the Supreme Court in Pfaff v. Wells revolutionized the on-sale bar analysis by replacing the "totality of circumstances" test with a "bright-line" rule. The Federal Circuit's creation of more "bright-line" rules for the prongs of the Pfaff analysis in recent cases like Group One v. Hallmark Cards has continued the revolution. Despite this attempt at certainty, many questions remain unanswered. Furthermore, the trend toward "bright-line" rules in the on-sale bar analysis may create more questions than answers.

A. BASIC INTRODUCTION TO THE ON-SALE BAR[36]

According to 35 U.S.C. § 102(b), "[a] person shall be entitled to a patent unless . . . (b) the invention was . . . on sale in this country, more than one year prior to the date of the application for patent in the United States." As such, the issue underlying the on-sale bar is whether a definite sale or offer for sale of the claimed invention occurred before the "critical date"—the

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33 Brief for *Amicus Curiae* United States of America, *CSU, L.L.C. v. Xerox,* No. 00-62 (S. Ct. January 2001), at page 7, *available at* http://www.usdoj.gov/osg/briefs/2000/2pet/6invit/2000-0062.pet.ami.inv.pdf.

34 *Id.*

35 Muris, *supra note* 1.

36 This section provides a quick introduction to the on-sale bar. Intermediate and advanced patent litigators may want to skip to the next section.

date one year prior to the filing date of the patent application.[37] *See,e.g.,* UMC Elecs. Co. v. United States, 816 F.2d 647 (Fed. Cir. 1987).

Prior to the Supreme Court's decision in Pfaff v. Wells Electronics, the Federal Circuit applied a "totality of circumstances" test to the on-sale bar analysis. *See,e.g.,* UMC, 816 F.2d at 656 (in analyzing the on-sale bar, "[a]ll of the circumstances surrounding the sale or offer to sell, including the stage of development of the invention and the nature of the invention, must be considered and weighed against the policies underlying section 102(b).").

In Pfaff, the Supreme Court replaced the Federal Circuit's "totality of the circumstances" test with a bright-line rule:

> [T]he on-sale bar applies when two conditions are satisfied before the critical date. *First, the product must be the subject of a commercial offer for sale.* An inventor can both understand and control the timing of the first commercial marketing of his invention. * * *.
>
> *Second, the invention must be ready for patenting.* That condition may be satisfied in at least two ways: by proof of reduction to practice before the critical date; or by proof that prior to the critical date the inventor had prepared drawings or other descriptions of the invention that were sufficiently specific to enable a person skilled in the art to practice the invention.

Pfaff v. Wells Electronics, Inc., 525 U.S. 55, 67 (1998) (emphasis added). Most case law since Pfaff has focused on analyzing the "ready for patenting" prong.[38] Facing a dearth of post-Pfaff case law on the "commercial offer for sale" prong, courts continued to look at pre-Pfaff case law for guidance. *See, e.g.,* Zacharin v. United States, 213 F.3d 1366, 1370 (Fed. Cir. 2000) (citing RCA Corp. v. Data General Corp., 887 F.2d 1056 (Fed. Cir. 1989)). In RCA, the Federal Circuit concluded that

> The requirement of a definite offer excludes merely indefinite or nebulous discussion about a possible sale. While this requirement may be met by a patentee's commercial activity which does not rise to the level of a formal 'offer' under contract law principles, a definite offer in the contract sense clearly meets this requirement.

RCA, 887 F.2d at 1060. Through the importation of cases like RCA to the Pfaff analysis, the "commercial offer sale" prong ironically inherited a substantial amount of leftover ambiguity from the "totality of circumstances" test that it was supposed to replace.

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[37] The policy behind the on-sale bar is to "prevent[ ] inventors from exploiting the commercial value of their inventions while deferring the beginning of the statutory term." Ferag AG v. Quipp Inc., 45 F.3d 1562, 1567-68 (Fed. Cir. 1995).

[38] *See, e.g.,* Weatherchem Corp. v. J.L. Clark, Inc., 163 F.3d 1326 (Fed. Cir. 1998); STX, LLC v. Brine, Inc., 211 F.3d 588 (Fed. Cir. 2000).

B. *GROUP ONE*: ELABORATING ON THE "COMMERCIAL OFFER FOR SALE" PRONG OF THE *PFAFF* ANALYSIS

In Group One v. Hallmark Cards, the Federal Circuit invoked a bright-line rule for the "commercial offer for sale" prong of the Pfaff analysis. *See* Group One Ltd. v. Hallmark Cards, Inc., 254 F.3d 1041 (Fed. Cir. June 15, 2001). In that case, Group One developed a machine for curling and shredding ornamental ribbon. Id. at 1044. On June 24, 1991, Frederic Goldstein of Group One sent to Hallmark a ribbon sample from the machine. Id. An accompanying letter proposed that "[w]e could provide the machine and/or the technology and work on a license/royalty basis." Id. Hallmark expressed interest and the parties began to negotiate.[39] Id.

On June 5, 1992, Hallmark informed Goldstein that it had "developed [its] own machine for curling and shredding ribbon, and therefore we are not presently interested in purchasing such a machine from your firm." Id. Perhaps in anticipation of litigation, Goldstein filed a patent application on November 12, 1992. Id. Accordingly, the critical date was November 12, 1991. Hallmark argued that Goldstein's communications prior to November 12, 1991, triggered the on-sale bar and invalidated the patent.

In holding that Goldstein's pre-critical date communications did not trigger the on-sale bar, the Federal Circuit began by noting that "[a]pplying established concepts of contract law, rather than some more amorphous test, implements the broad goal of Pfaff, which . . . was to bring greater certainty to the analysis of the on-sale bar." Id. at 1047.

Then the Federal Circuit set forth a "bright-line" rule for the "commercial offer for sale" prong of the Pfaff test:

> [W]e hold that the question of whether an invention is the subject of a commercial offer for sale is a matter of Federal Circuit law, to be analyzed under the law of contracts as generally understood. * * *.
>
> As a general proposition, we will look to the Uniform Commercial Code ("UCC") to define whether, as in this case, a communication or series of communications rises to the level of a commercial offer for sale.

Id. In finding the patent invalid, the district court had instead relied on RCA. *See* Id. As stated previously, RCA posited that certain communications not rising to a "formal" offer in contract terms might trigger the on-sale bar. Id. at 1048. On appeal, the parties had argued whether the communications crossed the threshold of conduct prohibited by RCA. *See* Id. However, the Federal Circuit challenged this approach, flatly stating that the fact "that no such commercial offer was made disposes of the matter." Id. As such, the essence of Group One is that commercial activity that does not rise to the level of a commercial offer will not trigger the on-sale bar.

[39] Prior to discussing details of the machine, the parties negotiated a Confidential Disclosure Agreement ("CDA"). However, Hallmark never signed the agreement.

C. *GROUP ONE:* UNCERTAIN CERTAINTY

Undoubtedly, the patentee wins big with Group One because the threshold of invalidating commercial activity has been raised considerably.

Some commentators believe, however, that the true gain for patentees from Group One is that the "bright-line" rule for commercial activity enables patentees to have a much better idea beforehand as to whether their patents can survive a section 102(b) challenge. Accordingly, patentees can now make informed decisions by, for example, reading the UCC to determine whether any pre-critical date commercial activity rose to the level of a commercial offer for sale. This is at least partially true.

However, even if Group One answers some questions about 102(b), many other questions remain unanswered. Furthermore, the application of contract law in Group One generates a complete set of new questions requiring new answers based on contract law principles. Future cases will undoubtedly have to provide contract-law answers to these new questions.

First, future case law will have to answer how the law of contracts affects not just the term "on sale," but also the remaining language of section 102(b). For example, section 102(b) requires an invention to be on sale *in this country.* Without further clarification, it is difficult to predict how the "law of contracts as generally understood" answers the question of whether otherwise invalidating commercial activity (perhaps made through the Internet) between a foreign supplier and U.S. buyer puts the invention "on sale" in this country. Similar questions are raised as to the temporal part of section 102(b)—i.e. when is the offer actually made for purposes of section 102(b).

Second, future case law will have to elaborate on what body of law is the final authority for divining the "law of contracts as generally understood." The Federal Circuit in Group One cited both the UCC and Restatement of Contracts as authoritative contract law sources.[40] Group One, 254 F.3d 1041 at 1047. In many areas, authoritative contract law sources contain conflicting provisions.

For example, at common law, certain jurisdictions required a price term in a proposed sale of goods in order to give rise to a formal offer (and thus conclude a contract). Sometimes the UCC follows this rule, as in UCC § 2-305(4), which states that when "the parties intend not to be bound unless the price be fixed or agreed and it is not fixed or agreed there is no contract." However, "the parties if they so intend can conclude a contract for sale even though the price is not settled," if the parties so intend. UCC § 2-305(1).

In Group One, Goldstein stated that he "could provide [a ribbon curling] machine and/or the technology [to Hallmark] and work on a license/royalty basis." Group One, 254 F.3d at 1044.

[40] Interestingly, the UCC never defines the term "offer." Accordingly, courts will probably turn to the Restatement of Contracts (which does define the term) at some point for guidance.

The Group One opinion indicates that the parties did not discuss pricing of the machine prior to the critical date.

Assuming that Goldstein formally offer to sell the machine,[41] then new issues created through the importation of contract law control the on-sale bar analysis. If the common law of certain jurisdictions is applied, then the lack of a price term reduces Goldstein's correspondence to commercial activity that does not trigger the on-sale bar. However, if the UCC is applied, then the issue becomes one of intent (the primary difference between UCC §§ 2-305(1) and 2-305(4)).

Interestingly, this raises the question of whether Federal Circuit law (applied in the context of the now-disfavored "totality of circumstances" test) can be used to elucidate issues like intent—or if contract law itself is indeed the final word. In Envirotech v. Westech (a pre-Pfaff case), the Federal Circuit stated that "the inventor's attempted exploitation must be objectively manifested as a definite sale or offer to sell the invention. The subjective, uncommunicated, and ultimate intention of the offeror, however clear, is not alone sufficient." *See* Envirotech Corp. v. Westech Eng'g Inc., 904 F.2d 1571, 1575 (Fed. Cir. 1990). Perhaps, as UCC § 2-305(1) indicates, the intent of the offeror, *together with the offeree*, is sufficient.

Third, future cases will have further define the line that distinguishes on-sale-bar-triggering offers to license inventions from non-triggering offers to license patent rights.

This question was suggested, but not answered in Group One. In an "alternative theory," Group One offered another reason why its commercial activity did not trigger the on-sale bar. In particular, Group One contended that the pre-critical date Goldstein communications was such that Group One "was offering only to license the patent to Hallmark, and was not offering to license or sell the invention as such." Group One, 254 F.3d at 1049. Hallmark responded that the communications demonstrated "that Group One was actually offering to license (i.e., sell rights to use) the machine itself, and not just rights in the patent on the machine." Id.

The Federal Circuit had previously held that "providing a machine to a potential customer with an offer to convey 'production rights' or the 'right to market the invention' does not constitute an offer to sell the invention that violates the on sale bar." Group One, 254 F.3d at 1049 (quoting Mas-Hamilton Group v. LaGard, Inc., 156 F.3d 1206, 1217 (Fed. Cir. 1998)).

Despite this signpost precedent, the majority expressly declined to draw the line between (offering to license inventions versus rights) more carefully, concluding that "[t]he various documents that passed between the parties leave the answer to this conundrum unclear." Id.

However, Judge Lourie sought to answer the question in his additional remarks. Ultimately, he concluded that the on-sale bar was not triggered because the "business arrangement between Goldstein and Hallmark was an offer to grant a license under the eventual patent, not an offer to sell the patented machine." Id. at 1053 (Lourie, J., additional remarks).

[41] The parties disagreed as to whether this conduct constituted an offer to sell the machine or whether, if anything, this conduct was merely an offer to license intellectual property rights covering the machine (see *infra*).

In doing so, he stated that "[t]here may be instances in which a license is tantamount to a sale, and in which a bar may arise from a license." Id. He provided the example of computer software, in which rights are technically licensed to a buyer—but from the viewpoint of an ordinary observer, the software itself is essentially sold. At some point, and particularly in view of the recent and dramatic rise in computer software-related patent claims, the Federal Circuit will need to decide whether this (and other) forms of licensing trigger the on-sale bar.

IV. HOT TOPIC #3: THE DEFENSE OF PROSECUTION LACHES

The Federal Circuit's very recent decision in Symbol Technologies v. Accu-Sort Systems acknowledged—some would say resurrected—the defense of prosecution laches. In the opinion, the majority battled with the dissenter regarding whether any precedent existed for the defense, and (if so) whether the 1952 Patent Act statutorily abrogated that precedent.

Because Symbol merely acknowledged the defense of prosecution laches, future cases will have to define the contours of the defense itself. The majority in Symbol relied on two Supreme Court cases, Woodbridge and Webster, as "precedent" for the defense prosecution laches. These two cases were each decided more than 70 years ago, and (as the dissent in Symbol points out) it is debatable whether they really constitute "precedent" for prosecution laches.

In order to predict how future cases will define the contours of prosecution laches, it is necessary to start with the best precedent available—Woodbridge and Webster.

A. PRECEDENT FOR PROSECUTION LACHES? *WOODBRIDGE* AND *WEBSTER*

In Woodbridge v. United States, the Supreme Court ruled that an inventor, Woodbridge, "forfeited his right to a patent by his delay in taking it from 1852 to 1862 . . . ." Woodbridge v. United States, 263 U.S. 50, 62 (1923). In February 1852, Woodridge filed a patent application. Id. at 51. The Patent Office subsequently allowed two claims, "the first for a smooth ring for a smooth bore cannon, and the second for a ring with exterior projections to fit into the rifled cannon, for the purpose of diminishing windage, and giving the projectile a motion in direction of the axis of the bore." Id. at 52.

Section 8 of the 1836 Patent Act enabled any applicant to request that his "specification and drawings . . . be filed in the secret archives of the [Patent] [O]ffice until he shall furnish the model and the patent be issued, *not exceeding the term of one year* . . . ." Id. at 52-53 (emphasis added). In March 1852, Woodbridge wrote the Patent Office to request that his patent application (with two allowed claims) be filed in the secret archives:

> I was informed . . . that upon the issue, or order to issue, of a patent, it may be filed in the secret archives of your office (at the risk of the patentee) for such time as he may desire. I wish to avail myself of this privilege when my patent may issue, in order that my ability to take out a patent in a foreign country may not be affected by the publication of the invention. If it is necessary to specify a

> particular time during which the patent shall remain in the secret archives, you will please consider one year as the time designated by me.

Id. at 52. The Patent Office ordered the issuance of a patent in April 1852, and filed the patent application in the secret archives, "subject to [Woodbridge's] directions as to the time of issuing them." Thereafter, "*nothing was done either by Woodbridge or the Patent Office for 9½ years . . . .*" Id. at 53 (emphasis added).

In December 1861, eight months after Civil War hostilities commenced at Fort Sumter, Woodbridge reminded the Patent Office of the order to issue the patent: "I have allowed it to remain until the present time, it being only lately that any immediate opportunity of rendering it pecuniarily available has occurred." Id. The Patent Office initially ordered the issuance of the patent, but recanted a month later by rejecting the application on abandonment grounds:

> The length of time [Woodbridge] had allowed his invention to slumber was a bar to the issue of a patent; that for nearly 10 years he had suffered his application to remain locked up, not merely beyond the reach of the public, but beyond even the cognizance of the examiners . . . ; that meantime many patents had issued for the same invention, and yet his only reason for his delay and silence was that he supposed the invention would not prove remunerative until recently.

Id. at 54. On review, the Supreme Court referred to an earlier case in which Justice Daniel stated that a patentee "may forfeit his rights as an inventor by a willful or negligent postponement of his claims, or by an attempt to withhold the benefit of his improvement from the public until a similar or the same improvement should have been made and introduced by others."[42] Id. at 57 (quoting Kendall v. Winsor, 62 U.S. (21 How.) 322, 329 (1859)). Applying that dictate of Kendall to the current situation, the Court concluded that Woodbridge had "deliberately delay[ed] the issue of his patent, so that its term and monopoly would . . . cover a much more commercially lucrative period than if he had obtained his patent when he might and should have requested it." Id. at 58. The Court emphasized that its conclusion rested "not on neglect and intention to give up the patent, but on a deliberate and unlawful purpose to postpone the term of the patent the inventor always intended to secure." Id. at 59.

In a second Supreme Court case, a similar situation occurred. *See* Webster Electric Co. v. Splitdorf Electrical Co., 264 U.S. 463, 471 (1924). Webster Electric's inventor, Kane, filed a patent application in February 1910.[43] Id. In October 1914, Kane attempted to amend the application and provoke an interference by adding six claims from a competitor's patent. Id. The patent examiner refused to enter the amendment, but directed Kane to contest the interference instead by filing a divisional application. Id. The Patent Office awarded priority to

[42] The Supreme Court conceded, however, that "[n]o case cited to us presents exactly these facts, but the general principles upon which this court has proceeded in cases of abandonment by conduct and its views of the rights of the public . . . leave no doubt of the conclusion we must reach." Woodbridge, 263 U.S. at 59.

[43] Kane's application issued as U.S. Pat. No. 1,204,573 in November 1916. Webster, 264 U.S. at 464.

Kane.[44] In 1915, Kane copied nine claims from a second competitor's patent in order to provoke another interference. Id. After losing the second interference, Kane filed an amendment with "*new and broader*" claims in June 1918. Id. (emphasis added). The Patent Office allowed the claims and issued a patent in September 1918. Id. at 465. Webster Electric then sued Splitdorf Electric for patent infringement of those "new and broader" claims. Id. at 464. In summary, the claims in suit were broader than the initially-filed claims and were first presented to the Patent Office more than eight years after an ancestral patent application was filed. Id.

The Supreme Court noted that this situation was "a case of unreasonable delay and neglect on the part of the applicant and his assignee in bringing forward claims broader than those originally sought." Id. at 465-66. Analogizing a previous case in which laches barred a reissue request made three years after patent issuance, the Court ultimately concluded that a delay of more than two years in the filing of a divisional application would invalidate patent claims issuing therefrom, unless the delay is accounted for and excused by special circumstances. Id. at 466.

B. SYMBOL: THE RESURRECTION OF PROSECUTION LACHES

In Symbol Technologies v. Lemelson, the Federal Circuit acknowledged the defense of prosecution laches. *See* Symbol Technologies Inc. v. Lemelson Medical, Education & Research Foundation, No. 00-1583, slip op. (Jan. 24, 2002). Manufacturers of bar code scanners and related products filed a declaratory judgment action, seeking to, *inter alia*, invalidate Lemelson's patents through a cause of action for prosecution laches (Lemelson had previously threatened to sue the manufacturers).[45] Id. at 2. Lemelson filed a motion to dismiss under Fed. R. Civ. P. 12(b)(6). Id. at 2-3.

The majority opinion opined that "[t]he defense of prosecution laches finds its origin" in Woodbridge and Webster (discussed *supra*).[46] Id. at 3. In dissent, Judge Newman challenged the majority's assertions:

> These cases did not establish [the principle of laches in patent prosecution]. In Woodbridge, the applicant waited nine years after the patent had been allowed by the Patent Office and [had been] given a statutory one-year delay in issuance, before calling the non-issuance to the attention of the Patent Office and requesting issuance with changes. The Court held that Woodbridge had waiting too long. Indeed so; *surely this is not "laches," for Woodbridge had already lost his statutory right to the patent*. And in Webster, the applicant presented, in a divisional application, claims covering subject matter in an adverse patent, five

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[44] Webster Electric acquired the rights to the competitor's patent prior to the interference proceeding and thus orchestrated the outcome.

[45] *See* additional background regarding Lemelson, *infra.*

[46] The opinion also discussed (in less detail) a few other Supreme Court cases, *see* Symbol at 5 (citing Crown Cork & Seal Co. v. Ferdinand Gutmann Co., 304 U.S. 159 (1938) (other citations omitted)), and rejected Lemelson's argument that the Federal Circuit is bound by its unpublished decisions. *See* Symbol at 8-9.

> years after issuance of the adverse patent, with which the applicant had previously lost an interference; a sequence that the Court struck down as "laches."

Id. at 14-15 (Newman, J., dissenting) (citations omitted) (emphasis added). The majority and Judge Newman also clashed on whether the 1952 Patent Act codified or abrogated the prosecution laches defense. The majority opined that "[t]here is nothing in the legislative history to suggest that Congress did not intend to carry forward the defense of prosecution laches . . . ." Id. at 7. In doing so, they rejected Lemelson's argument that by passing sections 120 and 121, "especially allowing the continuation practice, Congress abrogated the defense of prosecution laches."[47] Id. at 7. Id. Judge Newman accepted Lemelson's argument, asserting that "[t]he legal requirements for continuing applications embodied in 35 U.S.C. §§ 120 and 121 do not warn that there will be serious risks of forfeiture to those who comply with these legal requirements." Id. at 13 (Newman, J., dissenting) (citations omitted). Judge Newman concluded that "the court should not intervene in equity to regulate what Congress has not." Id. at 13-14.

Some commentators believe that the majority was simply trying to stop Lemelson's run at the kitty. Indeed, Judge Newman alluded to the majority's possible ulterior motive by stating that "I have no doubt that compliance with statuory law can lead to inequity in individual cases." Id. at 16. In short, Lemelson is considered by many to be the grandfather of the "submarine" patent—a patent that hides in the patent office for years, surfacing only after the patent-pending technology has become commonly applied. As Woodbridge correctly surmised with his rifle technology, which came into its own during the Civil War (approximately ten years after the filing of the patent application), delaying issuance of the patent until circumstances favorably evolve can often result in enormous economic benefit to the holder of the patent.

Lemelson's original patent applications for machine vision and bar-coding technology were filed in 1954 and 1956. Divisional applications of Lemelson's original patent applications issued into patents as late as the 1980s. Faced with a sudden infringement "checkmate," numerous companies elected to license rights to the technology in Lemelson's patents rather than risk the consequences. To date Lemelson's estate (Lemelson himself passed away in 1997) has collected more than $1 billion in license fees. Currently, Lemelson's estate has approximately a dozen lawsuits pending against hundreds of companies.

C. WHAT'S NEXT AFTER *SYMBOL*?

The Federal Circuit's decision in Symbol does not define the contours of prosecution laches itself—it merely recognizes that it "*may be applied* to bar enforcement of patent claims that issued after an unreasonable and unexplained delay in prosecution even though the applicant

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[47] Section 120 provides that if "[a]n application for patent for an invention disclosed in the manner provided by the first paragraph of section 112 of this title in an application previously filed in the United States . . . by the same inventor shall have the same effect, as to such invention, as though filed on the date of the prior application . . . ." Section 121 provides that "a divisional application which complies with the requirements of section 120 of this title [] shall be entitled to the benefit of the filing date of the original application."

complied with pertinent statutes and rules." *Id.* at 3 (emphasis added). In addition, and as Judge Newman pointed out in dissent, there is considerable controversy over whether Woodbridge and Webster even constitute precedent for the defense of prosecution laches. *See* slip op. at 14-15 (quoted in full at Part III-B *supra*).

In light of such uncertainty and a lack of dead-on precedent, these ambiguities can be exploited—until future cases clear things up—by arguing that any alleged prosecution delay is not unreasonable and therefore not susceptible to the defense of prosecution laches. In fact, the Federal Circuit and its predecessor have condoned several prosecution practices that can cause a significant delay in the prosecution of a patent—this gives rise to an inference that such delays are not unreasonable. Symbol did not indicate that these cases are no longer good law.

First, and as Lemelson pointed out, "[m]uch of the argument of Symbol and its amici rests on the notion that there is something objectionable in amending claims to read on products introduced in the marketplace while a chain of applications is pending." Brief for Appellee at 28. Despite the Symbol decision, it is still *not* "improper to amend or insert claims intended to cover a competitor's product that the applicant's attorney has learned about during the prosecution of a patent application . . . ." Kingsdown Medical Consultants, Ltd. v. Hollister Inc., 863 F.2d 867, 874 (Fed. Cir. 1988).

A similar situation occurred in Texas Instruments Inc. v. United States Int'l Trade Commission, 871 F.2d 1054 (Fed. Cir. 1989). In Texas Instruments, the Federal Circuit upheld the validity of claims broadened during prosecution to cover the MOSTEK DRAM, a competing product released after the filing of the original patent application.

On the other hand, perhaps prosecution laches can arise where new claims are drafted to cover a product that the applicant knew about *before* filing the patent application. This is consistent with Woodbridge to the extent that Woodbridge knew about competing cannon rings at the time he filed for his patent.[48] However, if the claimed technology is already available in a competing product, then the "public notice" policy of patent law is not disserved, and a primary reason for prosecution laches is no longer applicable. Of course, the patentee has arguably still violated public policy by extending the life of the patent beyond the 20-year term mandated by Congress.

Second, "there is no statutory basis for fixing an arbitrary limit to the number of prior applications through which a chain of copendency may be traced to obtain the benefit of the earliest of a chain of copending applications, provided applicant meets all the other conditions of the statute." In re Henriksen, 399 F.2d 253, 254 (CCPA 1968). Thus, section 120 (which governs continuation applications) "provides no limit to the number of applications that may be

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[48] It is unclear from the Woodbridge opinion as to whether Woodbridge knew about competing cannon rings when he filed a patent application in 1852. However, the Supreme Court emphasizes that Woodbridge waited until his invention was commercially viable to pursue his patent claims, which gives rise to the inference that competing cannon rings may have been available in 1852.

copending." Accordingly, at least some delay caused by the repeated filing of continuation applications must be reasonable.

In Symbol, the claims of U.S. Pat. No. 4,984,073 issued more than 30 years after Lemelson filed the first application to which he claimed priority, so 30 years is perhaps *per se* unreasonable. Brief for Appellants at 5. However, such lengthy prosecution times are rare. One study concluded that only 26 patents issued in 1996 with prosecution delays of more than 20 years. *See* Steve Blount & Louis Zarfas, The Use of Delaying Tactics to Obtain Submarine Patents and Amend Around a Patent that a Competitor Has Designed Around, 81 J. Pat. & Trademark Off. Socy'y 11, 14 (Jan. 1999). It is unclear whether a five or even ten-year delay, which is much more common, would give rise to the defense of prosecution laches. Given the recent enactment of patent term extension laws, it would seem that Congress believes that some delays are inevitable and thus reasonable.

V. CONCLUSION

This paper has reviewed three "hot topics" in patent law. First, governmental and private parties alike have expressed a renewed interest in using the antitrust laws as part of an IP strategy. Such interest has given rise to concerns over how to govern and manage the interface between antitrust and patent law. In the future, such concerns will continue to increase.

Second, following the lead of Pfaff, recent cases have instituted "bright-line" rules for the on-sale bar analysis. In Group One, the Federal Circuit used contract law "as generally understood" to clarify the meaning of "on-sale." However, future cases will have to answer new questions raised by these bright-line rules.

Third, the Federal Circuit recently acknowledged the defense of prosecution laches. However, the contours of the defense have not been defined. The fact that the defense rests on what many believe is questionable precedent enhances the need for the Federal Circuit to further elaborate on the defense.