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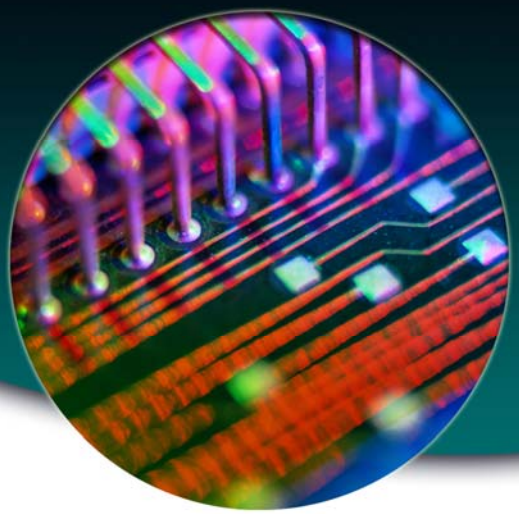

# INTELLECTUAL PROPERTY UPDATE

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**Inside:**


US Companies That Allow Foreign Nationals Access to Controlled Technology in the United States May Inadvertently Violate Export Control Laws ..... 2

The *Greenberg* Copyright Case: A New Rule for Republication Without Consent ..... 5

Strategies for Arguing Against §101 Rejections of Software-Based Method Claims in Light of *In Re Bilski* ..... 6

The Effect of *In Re Bilski* on Claims Drafting ..... 9

To Plead or Not To Plead: Strategic Considerations to Avoid Pitfalls in Motions to Stay Litigation Pending Reexamination of Patents-in-Suit ..... 12


## Editor's Corner

In this issue, we focus on the effects of *In Re Bilski* on claim drafting and strategies to consider when arguing software-based method claim rejections. In this much anticipated patent decision, the Court of Appeals for the Federal Circuit has sharply cut back on the allowability of patents for processes. While the ultimate impact of the ruling remains to be seen, new approaches are needed in drafting process and software-based patents in the United States.

We also cover critical strategic considerations to avoid pitfalls in motions to stay litigation pending reexamination of patents-in-suit in two of the most popular venues for patent actions, the Northern District of California and the Eastern District of Texas. A clear understanding of the pleading rules and standards governing these motions is of utmost importance when formulating a strategy.

There is also an article focusing on a hallmark copyright case in which Squire Sanders attained significant expertise in copyright infringement. Although Section 201(c) of the Copyright Act provides some guidance to the privileges of reproducing a photograph or article owned by others, there is much left to be seen in how the Supreme Court will interpret "revision" and a "new collection" or "new collective work."

Before technology of a US entity is "released" for export and available to foreign nationals for visual inspection, the US entity needs to ensure proper compliance with the "deemed export" rule. We consider factors US companies should contemplate when allowing foreign nationals access to controlled technology in the United States.

**Alicia M. Choi,** editor

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## US Companies That Allow Foreign Nationals Access to Controlled Technology in the United States May Inadvertently Violate Export Control Laws

### What Is the "Deemed Export" Rule?

The "deemed export" rule[1] views any disclosure of US-controlled technology or know-how to a foreign national within the United States as an export to that foreign national's country of origin whether or not the technology or know-how is physically shipped outside the United States. One of the rationales behind the deemed export rule is the concern that many of the state-of-the-art technologies developed by US companies have potential military use. If foreign nationals have access to US-controlled technology they may disclose such information to terrorist organizations or certain suspect countries. Therefore, the deemed export rule attempts to thwart such disclosures without the appropriate licenses. Nevertheless, the General Accounting Office has reported that one-third of companies it interviewed did not have internal controls in place to protect export-controlled information.[2] Compounding the export compliance challenges confronting companies is, as the General Accounting Office observed, a scarcity of readily accessible information disseminated from government agencies.[3]

### Technologies and Industries Covered by the Deemed Export Rule

Many types of technologies and industries are affected by the deemed export rule. Some of the categories of US-controlled technologies include (1) materials, chemicals, microorganisms and toxins; (2) electronics; (3) computers; (4) telecommunications and information security; (5) navigation and avionics; (6) lasers and sensors; (7) marine; and (8) propulsion systems, space vehicles and related equipment. Within each category, items are arranged by groups including (1) equipment, assemblies and components; (2) test, inspection and production equipment; (3) materials; (4) software; and (5) technology. In 2001 most deemed export licenses authorized foreign nationals to work with advanced electronics, computer, or telecommunications and information security technologies.[4]

Because of the broad list of categories, many industries may find that they have US-controlled technology and know-how which may need to be disclosed to foreign nationals and, therefore, are in need of a license. While it may be obvious that nuclear reactors are on the list of US-controlled technology, many other items that are considered US-controlled technologies are not as obvious. In particular, encryption software developed by a high technology company to be included in a product may be considered US-controlled technology based on the encryption bit level of the software. Additionally, certain speech recognition software and navigational positioning equipment (e.g., global positioning system or GPS) are considered US-controlled technologies.

[1] 19 C.F.R. §734.2(b)(2)(ii) for the Export Administration Regulations (EAR) ("Any release of technology or source code subject to the EAR to a foreign national. Such release is deemed to be an export to the home country or countries of the foreign national. This deemed export rule does not apply to persons lawfully admitted for permanent residence in the United States and does not apply to persons who are protected individuals under the Immigration and Naturalization Act (8 U.S.C. 1324b(a)(3)). Note that the release of any item to any party with knowledge a violation is about to occur is prohibited by §736.2(b)(10) of the EAR."); and 22 C.F.R. §120.17(4) for the International Traffic in Arms Regulations (ITAR) ("Disclosing (including oral or visual disclosure) or transferring technical data to a foreign person, whether in the United States or abroad.").

[2] *See* General Accounting Office Report No. GAO-07-069, December 2006.

[3] *See Id.*

[4] *See* General Accounting Office Report No. GAO-02-972, September 2002.

**Who Is a Foreign National?**

A foreign national is any person who is not a US citizen, lawful permanent resident or protected individual (asylee or refugee). For example, persons in the United States under non-immigration status, such as H-1B (Specialty Occupation Workers), L-1 (Intra-company Transferees) and F-1 (Student Workers) employees, and persons unlawfully in the United States are considered foreign nationals under the rule.

In the event that an individual is a permanent resident or citizen of a country other than that of their nationality, then it will be necessary to determine an individual's home country, which will vary depending on the government agency involved.

***Using a foreign national from a non-US subsidiary to develop proprietary, state-of-the-art encryption software technology could violate the export control laws.***

**Examples of Disclosure**

Disclosure of US-controlled technology and know-how can happen in many different ways including (1) face-to-face meetings; (2) telephone conversations; (3) email or facsimile transmissions; (4) visual inspections; (5) physical access; (6) practice or application under the guidance of someone knowledgeable of the technology; and (7) making information accessible on servers or intranet or extranet sites. For example, suppose a business needs to fill a vacant network consultant position. The job responsibilities include unrestricted or administrator access to servers containing controlled technical data, for the purposes of ensuring systems are up and running. If an H-1B individual is hired for the position then there could be a violation of the export control laws, even though that foreign national never actually accesses the controlled technical data.

Additionally, using a foreign national from a non-US subsidiary to develop proprietary, state-of-the-art encryption software technology could violate the export control laws. Moreover, if foreign national customers (or even foreign employees from a non-US office) visit manufacturing facilities in the United States and observe US-controlled processes and equipment, there could be a violation of export control laws. Therefore, it is very important to ensure that controlled technology and know-how is not inadvertently disclosed to foreign nationals, unless under the proper license.

**How to Determine Whether You Need a License**

Unless there is a license exception, a deemed export license is typically required to release US technology or know-how to a foreign national if the technology is controlled for export to the home country of the foreign national, or if the individual is or has been employed by a prohibited entity. Therefore, prior to hiring a foreign national who will have access to US technology or know-how or releasing such information to a foreign national employee or visitor, it is important to obtain, at least, the following information about the foreign national to assess whether a license will be required for this individual:

- Determine the person's home country;
- Review the individual's résumé to establish the person's previous employers;
- Compare individuals and employers on the résumé against the Denied Persons List, Entity List and Specially Designated Nationals List (no technology or know-how can be released to an individual named on one of these three lists); and
- Consult with the Commerce Department to determine if an export license is necessary if a former employer of the individual is on these above described lists.

As a matter of course, a company should obtain this information for all foreign nationals, even if they do not have access to technology controlled for export.

Additionally, if, for example, a foreign national will be visiting offices or meeting with employees, then a company should consider the following points in order to protect it from inadvertently violating export control laws:

- Will the foreign national's visit be supervised?
- What type of computer will the foreign national be using? Determine the MTOPS (million theoretical operations per second) of the computer to determine whether the computer is controlled for export.
- What software will the foreign national be using?
- Does the software contain encryption?
- What is the level of encryption and what is the purpose of the encryption?
- Is the foreign national's use of any encryption software restricted to internal company use? (There are special rules relating to a foreign national's use of encryption software for internal company use.)
- What technical data is stored on the computer network?
- What technical data is controlled for export that the foreign national might have access to?
- What areas will the foreign national have access to? Do these areas have any controlled information? Is this information secured to prevent unauthorized access?
- Will the foreign national be speaking with employees?
- What subjects will the foreign national be addressing?
- Is it possible that an employee may relay controlled technology to the foreign national?

If the foreign national potentially will have any access (even unauthorized) to any information that is controlled (either through oral communication, visual inspection or written form), an export license may be necessary to allow the individual site access. A company will need to examine the Commerce Control List and Commerce Country List to determine if it needs to obtain an export license.

***If the foreign national potentially will have any access (even unauthorized) to any information that is controlled an export license may be necessary to allow the individual site access.***

**Conclusion**

The deemed export rule is a broad rule covering a wide variety of technologies and industries. In today's global economy, deemed exports may occur with great ease and frequency. Many companies may not even know that their technology is controlled under the export control laws. Further, companies often do not realize that they are exporting their technology, even though there is no physical shipment of goods. Faced with issues discussed above, it is important for companies to launch effective initiatives to ensure that the proper licensing procedures are in place for compliance with the export control laws.

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## The *Greenberg* Copyright Case: A New Rule for Republication Without Consent

In 1976 Congress placed in the Copyright Act a "presumptive" privilege to republish individual creative works that narrowly limited the circumstances of republication. That presumptive privilege now seems more like a publisher's right that exceeds what Congress had in mind.

In December 1997 Miami photographer Jerry Greenberg sued the National Geographic Society for infringement of copyrights he owned for 64 photographs. His case, which he ultimately lost in 2008, has resulted in a modification of the copyright landscape with special overtones for digital works. Squire Sanders represented Greenberg. Various publishers are gathering up early editions of magazines and other works and republishing them in digital collections, sometimes with and sometimes without the consent of copyright holders whose contributions were included properly in the earlier collective works.

As a hallmark event in the digital age, the Society placed in the market in 1997 a collection of 30 CD-ROMs, called the *Complete National Geographic* (CNG), that digitally reproduced all back issues of monthly magazines published by the Society since 1888. Each magazine was copied and placed in sequence on a disc; each disc also displayed various other elements not associated with the original magazines. The CNG reproduced, within various issues of the magazines, 64 photographs focused on undersea themes that had been created by Greenberg over a period of decades as works-for-hire for the Society. In the 1980s, copyrights to the photographs were transferred to Greenberg by the Society. The CNG product had a spectacular run in the global marketplace, with more than one million units sold.

A three-judge panel of the Eleventh Circuit Court of Appeals decided in 2001 that the Society had infringed Greenberg's copyrights. Subsequently, Greenberg obtained a sizable jury award of damages. Ultimately, in 2008, Greenberg's victory disappeared when the Eleventh Circuit, with 12 judges sitting *en banc,* concluded that an intervening Supreme Court decision in *Tasini v. New York Times* had broadened the right to republish. Greenberg lost on a 7-5 split in the *en banc* Eleventh Circuit.

The *Tasini* decision involved the republication of copyrighted contributions to newspapers. However, that setting was factually different from the *Greenberg* case because individual news articles had been lifted out of the old newspapers and placed in isolation in a vast database with other articles. In *Tasini,* the Supreme Court said that such a republication was not permitted by the Copyright Act.

Section 201(c) of the Act was central to the *Tasini* outcome, and later to the Greenberg loss. That section says that the publisher of a collective work, such as a magazine or newspaper, has the privilege of reproducing a photograph or article, owned by others, that had appeared previously in an issue of the magazine or newspaper only "as part of that particular collective work, [or] any revision of that collective work."[5] The Supreme Court said in *Tasini* that the 201(c) privilege does not apply when a copyrighted freelance article or photograph is republished in a "new collection" or "new collective work."

In its defense, the Society's position was that the CNG product amounted to a "revision" of the 1,200-plus monthly magazines that had been aggregated on CD-ROMs. The 201(c) language quoted above says, however, that any permissible "revision" must be a "revision of that collective work." The only collective works that existed, and that might be revised, were the separate issues of the monthly

[5] The section also authorizes republication in "any later collective work in the same series," such as a later issue of the Society's monthly magazine. That prong was never in dispute in the litigation.

magazine. No single issue of the Society's magazine was revised in any manner. The Eleventh Circuit majority, in the 7-5 split, decreed that the gathering up of a great number of back issues of the Society's magazine, preserved in their original context and copied in a new digital aggregation, "revised" each of them and thereby satisfied the § 201(c) requirement.

The issue henceforth for publishers and artists has at least two principal components. One, if the *Complete National Geographic* product satisfied the statutory requirement of "revision," where none of the original collective works (magazines) was revised, will different approaches to the digital aggregation of magazines and newspapers also be lawful? Two, still unclear in the court decisions is what constitutes a "new collection" or a "new collective work" that the Supreme Court says is not within the statutory privilege.[6]

The scanning and digitizing of previously published collective works has had a lot of other attention in legal disputes. Very recently, Google and a number of book publishers and authors settled a major copyright quarrel by agreeing to apportion revenues that would be derived from the presentation online of millions of out-of-print books. Google also, with permission from certain publishers, will be allowing Google News users to search newspaper and magazine archives through its scanning. There have been other issues.

The Supreme Court in *Tasini* explained at length why §201(c) came into existence. The Court said that the Congressional revision of the Copyright Act in 1976 was undertaken in part to rebalance publishers' "superior bargaining power over authors." Section 201(c), said the Court, "adjusts a publisher's copyright in its collective work to accommodate a freelancer's copyright in her contribution [to the collective work]. If there is [later] demand for a freelance article standing alone or in a new collection, the Copyright Act allows the freelancer to benefit from that demand. . . ."

As the digital age accelerates, there will be issues aplenty. The republication of a bundle of pre-existing works in a digital format should be studied carefully by publishers, with their lawyers, prior to committing to such a project. The same precaution would be true for the individual creators of articles and photographs that might be used in such a new collection.

*Norman Davis, senior counsel, Miami*

[6] When the Society registered its copyright in the CNG, it said on the registration form that there had been no previous registration for that product and that "the year in which creation of this work was completed" was 1997. That can only mean "new." In the same form the Society described the CNG as a "compilation of pre-existing work." "Compilation" under the Act is a copyrightable aggregation, and the compilation category in the Act includes collective works.

## Strategies for Arguing Against §101 Rejections of Software-Based Method Claims in Light of *In Re Bilski*

**Introduction**

On October 30, 2008 the Court of Appeals for the Federal Circuit (CAFC) decided *In re Bilski,* which pertains to the eligibility of method claims as statutory subject matter under 35 U.S.C. §101. This case significantly modified the standard for evaluating subject matter eligibility with respect to method claims. The CAFC held that a "claimed process is surely patent-eligible under §101 if: (1) it is tied to a particular machine or apparatus or (2) it transforms a particular article into a different state or thing. *See Benson,* 409 U.S. at 70 ("Transformation and reduction of an article 'to a different state or thing' is the clue to patentability of a

process claim that does not include particular machines")." [7] In other words, applicants have two options with respect to writing statutory method claims: either (1) recite in the claims that the steps thereof are performed by a specific machine or apparatus; or (2) argue that a transformation takes place in the method.

***A "claimed process is surely patent-eligible under §101 if: (1) it is tied to a particular machine or apparatus or (2) it transforms a particular article into a different state or thing.***

Tying method claims to a specific machine or apparatus may unduly limit the claim scope, depending on what is claimed. For instance, if applicants choose to tie the claims to a "computer" or a "processor," certain otherwise-infringing devices may be deemed not to fall under the scope of the claims. With a computer, a PC and a laptop are likely to qualify, but what about PDAs, cell phones, tablet devices and other electronic devices that are becoming increasingly capable of carrying out the functions typically associated with a computer? A processor may run the risk of characterization as the general CPU of the device. If certain features are carried out by a subcontroller or some other non-CPU device that performs logical operations, a court may deem such features not to be performed by a processor. While new applications may be written to include such devices in the scope of a computer, a processor or whatever structure is chosen (after all, an applicant can be his or her own lexicographer), existing applications do not share this luxury.

Further, *Bilski* has left the determination as to whether tying features of a method claim to a "general purpose computer" is sufficient to tie the claim to a particular machine or apparatus for a future decision. As Judge Newman noted in her dissent in *Bilski,* "[w]e aren't told when, or if, software instructions implemented on a general purpose computer are deemed 'tied' to a 'particular machine,' for if *Alappat's* guidance that software converts a general purpose computer into a special purpose machine remains applicable, there is no need for the present ruling."[8] With such potential limitations to claim scope and the specter of a potential decision disqualifying a general purpose computer as a sufficient machine or apparatus in the future, it may be preferable to argue that software-based method claims qualify as statutory subject matter under the second prong of the *Bilski* test – namely, that the features recited in software-based method claims transform an article.

**The "Transformation" Prong**

With respect to the transformation of prong two, *Bilski* elaborated on the requirements for meeting the second prong of the *Benson* test. First, the transformation "must be central to the purpose of the claimed process". [9] The CAFC held this means that the transformation in question must "impose meaningful limits on the claim's scope" and not "be insignificant extra-solution activity". [10] Generally, the active verb at the beginning of a step in a method claim, such as "prioritizing," "allocating," "fetching," "storing," "receiving" or the like, will limit the claim and be important for the claimed invention (otherwise, such limitations should probably not be included in the claim). Thus, the operations of such active verbs should be deemed to be substantially central features to their respective claims and do not constitute extra-solution activity, as they are arguably at the heart of the claimed subject matter.

Second, the CAFC held that the transformation only qualifies as patent-eligible subject matter if it transforms a certain type of "article." "[T]he main aspect of the transformation test that requires clarification here is what

[7] *See* Slip op. at 10 and 11 (Fed. Cir. 2008).

[8] *See* Judge Newman's dissent in the Slip op. at 35 (Fed. Cir. 2008).

[9] *See* Slip op. at 10 and 11 (Fed. Cir. 2008).

[10] *Id.*

sorts of things constitute 'articles' such that their transformation is sufficient to impart patent-eligibility under §101."[11] The majority in *Bilski* stated "[t]he raw materials of many information-age processes, however, are electronic signals and electronically manipulated data" and that "[s]o long as the claimed process is limited to a practical application of a fundamental principle to transform specific data, and the claim is limited to a visual depiction that represents specific physical objects or substances, there is no danger that the scope of the claim would wholly pre-empt all uses of the principle."[12] However, claiming a "visual depiction" of data representing physical objects is not within the scope of many software inventions.

***Because software inherently requires some form of storage in order to be executed by a device a practitioner could argue that the method steps cause memory to undergo a physical transformation without creating prosecution history estoppel that would be useful to an adverse party.***

It appears that the CAFC is primarily concerned about applicants claiming all practical uses of a scientific principle. "*Diehr* can be understood to suggest that whether a claim is drawn only to a fundamental principle is essentially an inquiry into the scope of that exclusion; i.e., whether the effect of allowing the claim would be to allow the patentee to pre-empt substantially all uses of that fundamental principle. If so, the claim is not drawn to patent-eligible subject matter."[13] In the decision, the CAFC appears to take the position that all software methods are directed to algorithms. However, this is not the case, as claims may include features such as storing data structure, which includes the content of a packet header or the like. Clearly, data structure is not an algorithm. However, rather than embarking down the slippery slope of arguing whether the data in software claims conforms with the aforementioned requirements, it may be more effective to argue that a physical device is transformed – namely, memory.

Specifically, because software inherently requires some form of storage in order to be executed by a device (otherwise, said software exists in the abstract only and is not patent-eligible subject matter), such as RAM, cache memory, hard disk, tape drive or optical drive, a practitioner could argue that the method steps cause memory to undergo a physical transformation without creating prosecution history estoppel that would be useful to an adverse party. Thus, arguing something similar to the following in Responses, traversing a *Bilski*-based rejection under 35 U.S.C. §101 may be helpful.

> In the context of a network system such as that described in some embodiments in the present specification, Applicants submit that a person of ordinary skill in the art would readily appreciate that practicable embodiments of the claimed invention would be conducted with the aid of a computing machine, such as a server. Such computing machines are commonly understood to have memory. Further, the operations recited in the claims clearly change the state of the underlying data since the cache, register, or other memory on which the data is stored must be transformed to have a different magnetic polarity, electrical charge, or the like depending on the technology that is used. These are real physical changes. Further, memory is a real physical article. As such, Applicants submit that the method claims perform a transformation under the "machine or transformation" test and thus qualify as patent-eligible subject matter.

It will likely be difficult for an examiner to find any legal evidence to support an argument providing that changes in memory do not qualify as physical transformations. The majority in *Bilski* did not take such a position. Because the steps performed by a device, such as the server discussed

[11] *Id.* at 24 and 25.

[12] *See Id.* at 25 and 26.

[13] Id. at 8 and 9.

above, necessarily involve machine-executable code that transforms physical memory, an alternative argument to traverse a *Bilski*-based rejection would be to allege that the rejection is unreasonable. A transformation of memory is necessary for machine-executable code to be executed by a device.

**Conclusion**

In sum, it is inherent that practical applications of software-based inventions physically transform some type of memory. Accordingly, applicants may choose to argue that their software-based method claims comply with the transformation prong when presented with a 35 U.S.C. §101 rejection referring to *Bilski.* Dissenting judges alleged flaws in the majority's reasoning in *Bilski,* and Judge Newman's dissent is very well-reasoned, logical and persuasive. We note that the United States Supreme Court may decide to hear the case and eventually modify or overturn the CAFC's decision. Nonetheless, *In re Bilski* establishes new law with respect to method claims that will have to be addressed in many cases, at least for the foreseeable future.

*Michael A. Leonard II, associate, Tysons Corner*

## The Effect of *In Re Bilski* on Claims Drafting

The drafting of process or method claims has been significantly altered by *In re Bilski.* [14] Previously, the conventional best practice in claim drafting for method claims was to focus specifically on the method steps being performed, omitting reference to environment, and minimizing mention of the actor and workpiece as much as possible. In view of *Bilski,* the best practice in process claim drafting may substantially change. *Bilski* has, in effect, required that any process claim pass the "machine-or-transformation" test. This test requires either that the claimed process be tied to a particular machine or that the claimed process transform an underlying physical object. The putative rationale for the test is that it avoids the claiming of an abstract idea or, more particularly, avoids claims that exhaust a fundamental concept by covering every instance thereof.

In some areas of patent practice, claiming the invention will not change at all. Two such areas are methods of synthesizing chemicals and methods of manufacture. If a method is synthesizing a chemical from a precursor of some sort, it will meet the "transformation" prong of the machine-or-transformation test. Likewise, methods of manufacture that involve assembly of parts of a physical product will similarly meet the transformation prong. In general, the transformation prong of the test will be met in any method claim that relates to the alteration of some physical object. The greater the degree of alteration, the more clearly the method claim will pass the test. For example, the Federal Circuit indicated that a method of curing rubber would be expected to pass the transformation test. In such a method, the rubber is being

[14] No. 2007-1130 (Fed. Cir. October 30, 2008).

physically altered and, consequently, the method would be deemed to be proper subject matter for a patent.

In view of the fact that claims to methods of synthesis and manufacture are likely proper subject matter, patent practitioners will undoubtedly attempt to characterize other kinds of method claims in such a way. However, there may be limits on how this use of the transformation test can be applied. It is possible that the use of a very generic term for the product to be manufactured may dissatisfy a future Federal Circuit panel. For example, a "method for manufacturing widgets" would seem more tenuous than a "method for manufacturing means for illumination," which would, in turn, seem more tenuous than a "method for manufacturing light bulbs." In other words, the more specific and concrete the product is, the higher the likelihood that the Federal Circuit will deem the transformation to pass the test.

***The Federal Circuit seems to want the claim to be tied to a particular machine in order to avoid claims that are excessively broad.***

Additionally, practitioners seeking to protect software innovations may seek to characterize their invention in terms of a method of producing a transformation in a signal, a magnetic medium or a similar recording structure. The Federal Circuit specifically avoided discussing whether such a transformation would qualify, which casts a shadow of doubt over whether the Federal Circuit would consider such a transformation adequate. In view of the Federal Circuit's decision in *In re Nuijten,* [15] it seems unlikely that the transformation of a transient signal would be considered an adequate transformation. Producing a transformation in magnetic media or similar structures may be more successful.

Moving on from "transformation," we encounter the "machine" portion of the test. In general, claim drafters could meet this test by including a particular machine somewhere in the claim. There are several options for how the particular machine can be included, which may lead to different results as to whether subject matter is proper.

The first option is to mention the machine as environment. For example, the particular machine may be identified in some nonlimiting way within the body of the claim. One possibility is if the particular machine were mentioned within an optional recitation found in the claim, or found in only one of several embodiments covered by a claim. Another way that the particular machine can be mentioned as environment is to mention the particular machine. Thus, for example, a claim may recite "a method for counting on an abacus," without further reference to the abacus within the body of the claim. Thus, arguably, the feature "counting on an abacus" is merely an intended use and not a limitation on the claimed method.

However, this first option is the least likely to be successful. The Federal Circuit seems to want the claim to be tied to a particular machine in order to avoid claims that are excessively broad. If the machine does not serve as a meaningful limit on the method, it is unclear how the recitation of the particular machine would serve to prevent the claim from appropriating an entire fundamental idea. Thus, it would not seem to be the best practice to rely solely on an optional or environmental recitation of a particular machine.

A second approach is to recite a particular machine as a workpiece. In a method of ferrying cars, for example, cars are workpieces: they are things being acted upon. The operations described are not performed by the cars, but on the cars. In some cases, having a particular machine as a workpiece may result in a transformation. In other cases, however, a process like ferrying boats may not be deemed to significantly transform the workpiece in question.

[15] No. 2006-1371 (Fed. Cir. Sept. 20, 2007).

This second option is more likely to be successful than the environmental claiming. Indeed, since a method that did not include the workpiece could not infringe the claim, it is reasonably arguable that the method is tied to the workpiece. There are two factors, however, that make this claiming approach risky. First, the workpiece may not be considered to be a limitation on the method step itself. For example, in the method of ferrying cars, the method steps may not really depend on the fact that the load being carried is a car, as opposed to a large brick. It could be argued by an adverse party that the workpiece is not a real limitation of the claimed process and thus the subject matter is not proper.

***If a machine is specified for only one step of a particular claim, care should be taken to ensure that the selected step is at the heart of the invention and not merely tangential to the invention.***

The second factor that makes this approach risky is US Patent and Trademark Office (PTO) interpretation of the machine prong of the test. In reviewing a number of claim rejections issued by the PTO after *Bilski,* most of the rejections seem to focus on whether there is a stated actor for the claimed method, while ignoring the issue of whether a workpiece is present. In some art units, concern over overly broad claims may also encourage examiners to request that applicants specifically identify the particular machine performing a claimed method. Thus, there may be some institutional bias against considering the workpiece to be a sufficient tying to qualify the claimed subject matter as proper under the machine prong of the *Bilski* test, leading to rejections of the claims.

The clearest way to tie a particular machine to a claimed method is to state that the machine performs one or more steps of the method. Thus, in the example of a method of ferrying, the ferry itself would be the particular machine that performs the method. One problem with this approach, however, is that the more effectively it ties the process to a specific device, the more limiting the proposal becomes.

Again, as in the case of the transformation, the machine may be specified more or less particularly. The specification of the machine as a "widget" or some other highly generic term is unlikely to pass the test, because it is unlikely that a "widget" (as such) would qualify as a particular machine. At the other end of the spectrum, a device specified by manufacturer part number would qualify as a particular machine, but the resultant claim would (one expects) be trivial to design around.

Toward the center of the spectrum is the recitation of a "processor" or "controller" as the specific device. For many inventors of electronic business method claims and many other software-related claims, this approach may be attractive. Again, there is a balance of risks associated with this approach. While "processor" and "controller" are more specific than "widget," they are still rather generic. Furthermore, the Federal Circuit specifically excluded the discussion of computer-implemented inventions from its discussion, leaving doubt about the level of specificity required.

When tying the steps of a method to a particular machine, one approach that appears to be acceptable is to recite, "wherein the method is performed by [the particular machine]." Another option is to specify that one particular step is performed by a particular machine. If a machine is specified for only one step of a particular claim, care should be taken to ensure that the selected step is at the heart of the invention and not merely tangential to the invention.

Tying to certain categories of process steps may not be helpful. The Federal Circuit has indicated that gathering inputs by machine is generally an insufficient tying. The analysis the Federal Circuit used for the relevance of the tying in the machine prong of the test was a "solution" test.

The Federal Circuit indicated that the analysis of the claim would proceed in this case with respect to a problem-solution analysis. Accordingly, those parts of the method claim intimately connected with the problem to be solved are the parts where machine-tying is relevant. In the case of data-gathering, this is viewed as "pre-solution activity." Merely storing the results of processing, even where the storing was done by a particular machine, would likely be considered "post-solution activity." On the other hand, display of processing results, if necessary to solve the problem in the conventional art, could be considered activity that is part of the solution.

Accordingly, if claims are drafted with fewer than all the steps being performed by a specified machine, care should be taken that the steps tied to a particular machine are those that are directly involved in the solution of the problem for which the invention is intended. Simply tacking on a step to the method, where the new step is tied to a machine, is likely to be unacceptable to the Federal Circuit as it would appear to be "extra-solution activity," not at the heart of the claimed invention.

It should be noted that the new drafting approach is not necessarily limited to the claims, as such. Patent practitioners may wish to draft their applications, particularly those for business methods, so as to maximize tying of the claimed processes to particular machines. If such machine is a "processor" or "controller," the specification should be careful to provide some general description and examples of embodiments of the processor or controller, so the terms are given a broad yet sufficiently particular meaning. Furthermore, practitioners should consider providing a problem-solution discussion in the application, in which various parts of a claimed method are important to the solution of various problems, so as to provide multiple options for tying the method to particular machines.

*Bilski* should provide fodder for litigation of US patent claims to processes for many years to come, assuming it is not overturned by the US Supreme Court. The cautious patent prosecutor should take care to plan for the risks of claims being deemed to be addressed to improper subject matter. Such plans can include tying the methods to processes or drafting the methods to include the transformation of a real physical object.

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## To Plead or Not To Plead: Strategic Considerations to Avoid Pitfalls in Motions to Stay Litigation Pending Reexamination of Patents-in-Suit


Even in its initial stages, patent infringement allegations can disrupt business and cast a brooding shadow of protracted litigation. Being mindful, certain scenarios and procedural events may help alleviate these challenges and decrease costs. Specifically, with increasing frequency parties are seeking reexamination of asserted patents by the PTO and moving to stay litigations pending such reexamination. This phenomenon brings with it a flurry of pleading considerations for parties including which claims a party should plead and when.

### The Legal Landscape

The PTO recently reported that since patent reexamination first became available in 1981, it has received 9,382 reexamination requests, over 1,100 of which came in 2007

and early 2008.[16] Reexamination requests have become an increasingly popular weapon for accused infringers who believe they have prior art that invalidates or narrows the patent claims asserted against them. The popularity of reexamination requests can be attributed to the fact that 13 percent of reexaminations have resulted in cancellation of all claims and just under 60 percent have resulted in some change to the claims.[17] Accused infringers also stand to delay litigation: the average pendency of an *ex parte* reexamination is ***more than two years*** (24.3 months).

***Failure to assert unrelated claims could result in waiver, particularly where the other claims are "compulsory" because they arise out of the same occurrence or series of occurrences.***

To take advantage of this lengthy delay, accused infringers may file motions to stay the litigation pending reexamination. Both the Northern District of California and Eastern District of Texas have articulated a three-part test for whether to grant a stay of the action pending reexamination.[18] Notably, these courts consider: (1) whether the litigation is in its early or late stages, looking at how much discovery has been taken and whether a trial date has been set or dispositive motions have been filed; (2) whether a stay will simplify the issues and streamline the litigation; and (3) whether a stay would unduly prejudice or tactically disadvantage the non-moving party, such as when the court finds evidence of delay tactics on the part of the party moving for a stay.[19]

With respect to the second factor, many courts analyze whether claims unrelated to the patent infringement claim are present in the action. The rationale is that it does not make sense to stay the litigation – or at least the entire litigation – if any non-patent-related claims remained that needed to be adjudicated and that would not benefit from the PTO's guidance and expertise.[20]

Litigants may be able to affect the likelihood of a stay by choosing to assert or withhold claims unrelated to the patent infringement claim. This raises another consideration. Failure to assert unrelated claims could result in waiver, particularly where the other claims are "compulsory" because they arise out of the same occurrence or series of occurrences.[21] On the other hand, litigants could choose to add unrelated claims at a later date, relying on the courts' liberal policy of permitting parties to amend their pleadings. See *Bonin v. Calderon,* 59 F.3d 815, 845 (9th Cir. 1995); *Carson v. Polley,* 689 F.2d 562, 584 (5th Cir. 1982). These pleading and waiver rules can have undesirable effects in the context of a party seeking to stay the litigation pending reexamination of a patent.

As a hypothetical situation, Party A, who owns the 123 patent, wants to sue its competitor Party B for infringement. Party A wants to bring suit in district court in either the Northern District of California or the Eastern District of Texas, two of the most popular venues for patent actions that share very similar patent local rules. At this point, both parties – and, of course, their respective counsel – need to be aware of certain rules and pitfalls before proceeding.

[16] PTO *Ex Parte* Reexamination Filing Data - June 30, 2008.

[17] *Id.*

[18] *See Tokuyama Corp. v. Vision Dynamics, LLC,* 2008 U.S. Dist. LEXIS 82732 (N.D. Cal. Oct. 2, 2008); *Sovereign Software LLC v. Amazon.com, Inc.,* 356 F. Supp. 2d 660 (E.D. Tex. 2005).

[19] *e.g., Photoflex Prods. v. Circa 3 LLC,* 2006 U.S. Dist. LEXIS 37743, *4-6 (N.D. Cal. May 24, 2006).

[20] *See Tokuyama,* 2008 U.S. Dist. LEXIS 82732 at *8-9 (denying stay because the accused infringer had asserted a counterclaim for antitrust violations, which the outcome of the reexamination would not resolve); *Photoflex,* 2006 U.S. Dist. LEXIS 37743 at *7 (granting stay in part only as to patent infringement claim but denying stay as to remaining claims because the accused infringer had not shown that these claims presented "significant overlapping issues").

[21] *See, e.g., Hydranautics v. FilmTec Corp.,* 70 F.3d 533, 536 (9th Cir. 1995).

**Party A's Perspective**

As the plaintiff, Party A typically will want to assert in the same lawsuit all causes of action it has against Party B besides the cause of action for infringement of the 123 patent. If it does not, Party A risks waiving noninfringement claims that arise out of the same occurrence or series of occurrences. But what about claims not necessarily so closely tied to the events constituting the alleged infringement? Depending on the facts, these noninfringement claims might range from breach of contract (e.g., of a license agreement) to statutory or common law unfair competition (particularly if Party B is a competitor in the same industry). The answer depends on certain strategic considerations in light of the above rules.

For example, suppose Party A knows (perhaps from pre-litigation communications) that Party B has prior art that provides a basis for a reexamination request. Party A can properly assume that Party B will file a reexamination request that could eventually precipitate a motion by Party B to stay Party A's litigation pending reexamination of the 123 patent. Suppose also that Party A has additional state law claims that are ancillary to its claim of infringement of the 123 patent, such as common law unfair competition and violations of California's Unfair Competition Law.[22] If Party A anticipates Party B seeking reexamination and moving to stay pending this reexamination, Party A must decide whether to plead its state law claims at this time.

Thus, if Party A's primary goal is to assert and protect its patent rights in an expeditious manner, Party A may choose to plead as many ancillary or noninfringement claims in this lawsuit as it has against Party B to improve its chances of defeating a motion to stay. The need to adjudicate such unrelated claims would weigh strongly against a stay of the entire action.[23] Conversely, if Party A has no real desire to get entangled in federal litigation but files suit against Party B for other reasons – such as to apply pressure on Party B to settle and take a license on the 123 patent – the opposite reasoning makes more sense. Party A then would have an incentive not to allege ancillary claims in this lawsuit before any motion to stay, and could separate its claims and allege them in an independent action in state court. Alternatively, Party A could attempt to wait until after the court decides a motion to stay before seeking leave to amend its complaint to plead in these unrelated claims. This approach is a bit more risky, however, as a court may very well view this as dilatory tactics or gamesmanship.

**Party B's Perspective**

Party B faces a similar tension when it comes time to serve its answer and counterclaims. Assume here, too, that Party B has prior art it believes would change, if not eliminate, the claims of the 123 patent that Party A is asserting. An accused infringer like Party B will not want to expend resources defending against claims that might be altered to the point that they do not read on Party B's accused products, or stricken entirely. Party B's interest is, thus, to delay or stay Party A's lawsuit. Yet Party B must also consider which counterclaims to plead. For compulsory counterclaims, the course of action is fairly clear as the Federal Rules of Civil Procedure requires Party B to state all of its compulsory counterclaims in its answer to avoid waiver of these counterclaims.[24] In a traditional patent litigation, such counterclaims will seek declarations of noninfringement and/or invalidity of the 123 patent.

Party B may also have other counterclaims that are not related to the alleged infringement (e.g., for antitrust violations). Party B's objective of delaying this action would be best served by *not* pleading these counterclaims before moving to stay the litigation pending reexamination. The

[22] Cal. Bus. & Prof. Code §17200 *et seq.*

[23] *See, e.g., Tokuyama,* 2008 U.S. Dist. LEXIS 82732 at *8-9 *Photoflex,* 2006 U.S. Dist. LEXIS 37743 at *7.

[24] Fed. R. Civ. P. 13(a).

presence of these additional, unrelated counterclaims would likely hurt Party B's chances on a motion to stay.[25]

Party B, nevertheless, might be precluded from seeking leave to later amend – for example, after an unsuccessful motion to stay – to add its additional, noninfringement-related counterclaims. While leave to amend should be given freely,[26] courts are likely to view such a tactic – withholding counterclaims just for the purpose of securing a stay of the litigation pending reexamination – unfavorably as "bad faith," a recognized ground for denying leave to amend.[27] As a result, Party B appears to face a much more pronounced conflict between its objectives of delaying the litigation and its obligations to timely plead its counterclaims.

**Final Thoughts**

As the above hypothetical illustrates, pleading rules and the standards governing motions to stay litigation pending reexamination can lead to conflicting considerations depending on a party's goals and objectives. The savvy litigant will tailor its strategy accordingly. If the old adage that "knowledge is power" rings true, knowing the above rules and how they interact can provide parties with a leg-up on patent litigation – even before the complaint is served.

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[25] *See Tokuyama,* 2008 U.S. Dist. LEXIS 82732 at *8-9; *Imax Corp. v. In-Three, Inc.,* 385 F. Supp. 2d 1026, 1033 (C.D. Cal. 2005) (denying defendant's motion to stay where "[e]ven if the PTO eliminates all the claims of the [patent], which is statistically unlikely, the court must still address [defendant's] counterclaims, some of which are completely unrelated to patent infringement").

[26] *See, e.g., Morongo Band of Mission Indians v. Rose,* 893 F.2d 1074, 1079 (9th Cir. 1990).

[27] See Bonin, 59 F.3d at 845.

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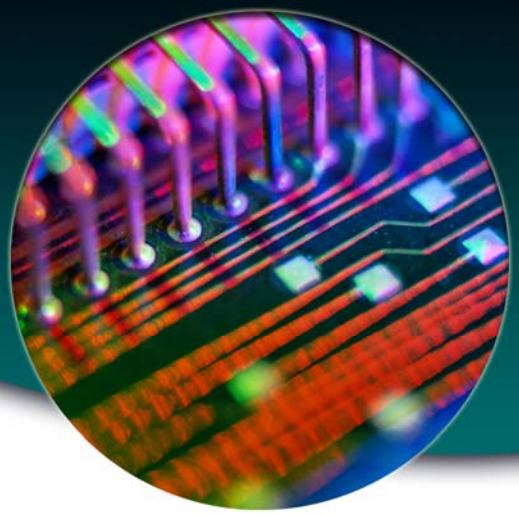

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