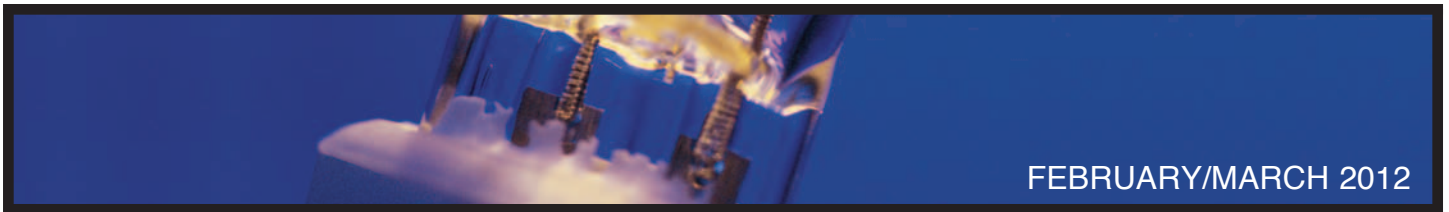




IDEAS ON INTELLECTUAL PROPERTY LAW



FEBRUARY/MARCH 2012

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Key components of the patent reform law

When President Obama signed the Leahy-Smith America Invents Act (AIA) last fall, it marked the culmination of a years-long reform process. The act includes some of the most sweeping changes to U.S. patent law since 1836. In particular, several key components will significantly affect the patent prosecution and review processes.

First inventor to file

The AIA shifts the U.S. patent system from a first-to-invent priority scheme to a first-inventor-to-file scheme, bringing the United States closer to, though not completely in line with, the patent systems of most other countries. Under the previous system, the inventor who first conceived of an invention was entitled to patent protection. Now protection is bestowed on the first party to file a patent application on the invention, regardless of the date of invention.

The law provides a grace period triggered by disclosure of an invention by or for the inventor that extends for the shorter of:

1. A full year for disclosures by or for the inventor, or
2. Up to a year for public disclosures or patent filings by third parties.

During the grace period, those public disclosures or third-party patent filings won't preclude the inventor from obtaining patent protection even though

the inventor's patent filing wasn't the first to be filed during this grace period.

The AIA also replaces the interference procedure, currently used to determine the first inventor when conflicting applications are filed, with a "derivation proceeding." A subsequent filer can use the proceedings to challenge the priority and prior art effect of the first application filer on the ground that the first application was derived from the subsequent filer's invention.

The first-to-file system takes effect March 13, 2013. But the grace period can begin up to 12 months before filing, so patent owners need to understand by March 2012 how these changes could affect their patent filing strategies.

Validity challenges

Effective Sept. 16, 2012, the AIA will implement entirely new procedures for challenges to the validity of an issued patent. It phases out the current inter partes re-examination proceedings and creates several new proceedings:

Supplemental examination.

This provides a way for patentees to make prelitigation submissions to correct any potential disclosure mistakes made during the prosecution. A patentee can submit materials to the U.S. Patent and Trademark Office (PTO) that may need to be cleansed as prior art.



Patent ownership could get more expensive

Under the America Invents Act (AIA), the U.S. Patent and Trademark Office (PTO) may now set its own fees. But those fees will be subject to public hearings and congressional oversight. Any excess fees collected will be deposited in a special trust account and the PTO must receive congressional authorization before tapping those funds.

The general fee-setting authority will take some time to implement, but many patent owners could take a hit to the pocketbook. A 15% surcharge already has been added to PTO fees, along with a \$400 charge for nonelectronic filings. However, the AIA also adds a category of “micro entities” that will receive a 75% reduction in fees.

If the PTO determines that the materials present a “substantial new question of patentability,” it will perform an ex parte examination. If not, the PTO will issue a certificate confirming patentability. As long as the re-examination concludes before litigation begins, the submitted materials cannot later be used by an alleged infringer as the basis for an inequitable conduct defense.

Post-grant review. For nine months after issuance, a third party can challenge a patent filed under the new first-inventor-to-file system on any statutory grounds, including:

- Prior art,
- Prior public use,
- Lack of enablement,
- Lack of written description, and
- Lack of utility.

Note that failure to disclose best mode is no longer grounds for invalidity, though disclosure is still required. The PTO will initiate a post-grant review of a patent only if the challenger can show that the patent is “more likely than not” invalid.

Inter partes review. The AIA establishes a new inter partes review that replaces and expands the current inter partes re-examination. This review is more limited than post-grant review; it allows only prior art challenges claiming that, based on patents

or printed publications, the invention isn’t new or is obvious.

However, the new inter partes review has been expanded to be available to challenge all patents, not just patents filed after Nov. 29, 1999, as was the case for the current inter partes re-examination. The PTO will initiate an inter partes review only if the challenger shows a reasonable likelihood of success with the challenge.

Transitional program for covered business method patents. The AIA creates a temporary eight-year program under which a party accused of infringing a business method patent relating to financial products or services can petition the PTO to review the patent’s validity.

This so-called business method review allows the accused party to use the post-grant review process for the eligible business method patent to challenge whether the patent is a proper patent under Section 101. Normally, such patents aren’t eligible for post-grant review because they were filed under the old first-to-invent system.

Ultimate impact

Many of the most significant AIA changes will be phased in over time and apply prospectively to new patent applications. As a result, it could take more than a decade before their ultimate impact on the U.S. patent system can be fairly assessed. In the meantime, it’s hoped that patent quality will improve and litigation costs will drop. ○

Using survey results in false advertising claims

False advertising lawsuits often rely on consumer survey evidence to show that advertising claims are misleading. But, given the decision of the U.S. Court of Appeals for the Third Circuit in *Pernod Ricard USA, LLC v. Bacardi U.S.A.*, plaintiffs probably shouldn't count on this evidence to get them over the finish line.

The facts, distilled

Bacardi sells rum with the brand name Havana Club. On the bottle's front, the phrase "Havana Club™" appears in large stylized letters, followed by the word "BRAND" in much smaller letters. The words "PUERTO RICAN RUM" appear below that, in a different font and in letters of prominent but slightly smaller size than those in the brand name. The back of the bottle includes a statement in clearly legible type that states: "Havana Club™ Rum is a premium rum distilled and crafted in Puerto Rico," as well as the phrase "Produced by Havana Club, U.S.A., San Juan, P.R."

Pernod Ricard sued Bacardi for false advertising under the Lanham Act. It claimed that the labeling of Bacardi's bottle — particularly the use of the words "Havana Club" — misleads consumers to believe that the rum is produced in Cuba.

The district court ruled for Bacardi. But Pernod appealed, arguing that the court erred in failing to consider its survey evidence that 18% of consumers who saw the Havana Club bottle were left thinking the rum was made in Cuba or from Cuban ingredients.

Plaintiff on the rocks

To establish a false advertising claim, a plaintiff must show, among other things, actual deception or at least a tendency to deceive a substantial portion of the intended audience. In many cases, the plaintiff can use a properly conducted consumer survey to do so.



But the Third Circuit found that Pernod's survey evidence played no helpful part because the Havana Club label, taken as a whole, couldn't mislead any reasonable consumer about where the rum is made. The bottle clearly states on the front label that the liquor is "Puerto Rican Rum," while the back label states that it's "distilled and crafted in Puerto Rico."

The court held that "there are circumstances under which the meaning of a factually accurate and facially unambiguous statement is not open to attack through a consumer survey." Further, it emphasized that, in evaluating a false advertising claim, it must consider the entire ad, not just words in isolation. Here, any geographic suggestion given consumers by the words "Havana Club" was offset by the plain and explicit statements of geographic origin.

Tab is open

The Third Circuit stressed that it wasn't rejecting survey evidence altogether. It specifically noted that potential ambiguities in ads "will regularly make it the wisest course to consider survey evidence." ○

Transaction denied

Federal Circuit addresses software patentability

The patentability of software applications is by no means certain. Case in point: *CyberSource Corporation v. Retail Decisions, Inc.*, a recent decision handed down by the U.S. Court of Appeals for the Federal Circuit. The court's ruling addresses the role and application of the so-called machine-or-transformation test for the patentability of method claims.

The charge

CyberSource holds a patent for a method and system for detecting fraud in credit card transactions conducted online. The method obtains information about transactions conducted at the same Internet address associated with a pending transaction to determine, for example, whether fraud has originated from there in the past.

The company sued Retail Decisions, alleging infringement of the patent. The district court granted summary judgment, finding that the patent was invalid because the invention wasn't patentable.

In April 2009, CyberSource appealed to the Federal Circuit, the court that hears all patent appeals. This was before the U.S. Supreme Court agreed to hear the *Bilski v. Kappos* case regarding the proper test for the patentability of method (or "process") claims.

The Federal Circuit stayed the *CyberSource* proceedings until after the Supreme Court issued its *Bilski* ruling that the machine-or-transformation test isn't the exclusive check for patentability of such claims.

Limits on patentability

Section 101 of the Patent Act provides that patents may be granted for "any new and useful process, machine, manufacture, or composition of matter." The Federal Circuit has previously held that a claimed process is only patent-eligible if it:

1. Correlates to a particular machine or apparatus, or
2. Transforms a particular article into a different state or thing.

The Supreme Court, however, subsequently ruled in *Bilski* that, though this machine-or-transformation test is a useful and important clue to the patentability of a process, it's not the sole test.

Nonetheless, the three-judge panel of the Federal Circuit began its analysis of CyberSource's patent by applying the machine-or-transformation test. It found that the method of collecting and organizing data regarding credit card numbers and Internet addresses failed the test.



The court rejected CyberSource's argument that the method is tied to a particular machine because it wouldn't be necessary or possible without the Internet: "Regardless of whether 'the Internet' [itself] can be viewed as a machine, it is clear that the Internet cannot perform the fraud detection steps."

Heeding the Supreme Court's ruling that a patent's failure



to satisfy the machine-or-transformation test isn't determinative of patentability, the Federal Circuit didn't end its analysis there. It went on to find that CyberSource's method wasn't patentable because it represented a mental process, "a subcategory of unpatentable abstract ideas."

In the human mind

The court found that the method's steps could all be performed in the human mind or by a human using pen and paper. It noted that the patent's broad scope extended to essentially any method of detecting credit card fraud based on information associating past transactions with a particular Internet address — even methods that can be performed in the human mind.

Indeed, CyberSource's own CEO admitted that, before the company created a computer-implemented fraud detection system, "we could see just by looking that more than half of our orders were fraudulent."

"Beauregard" claim

The Federal Circuit also considered a so-called "Beauregard" claim, which is a claim to a computer readable medium — for example, a disk, hard drive or other data storage device — containing program instructions for a computer to perform a particular process. The Beauregard claim here referred to a computer readable medium containing program instructions for detecting fraud in a credit card transaction between a consumer and a merchant over the Internet.

The court held that this claim recited nothing more than a computer readable medium containing program instructions for executing the unpatentable method — the method underlying the Beauregard claim was the same method of fraud detection as previously described. It found that CyberSource had failed to show that the claim was "truly drawn to a specific" computer readable medium rather than to the underlying method of credit card fraud detection.

Section 101 of the Patent Act provides that patents may be granted for "any new and useful process, machine, manufacture, or composition of matter."

Simply reciting the use of a computer to execute an algorithm that can be performed entirely in the human mind, the Federal Circuit explained, doesn't make a claim patentable. Because both claims covered unpatentable mental processes, they were both invalid.

An uncertain future

It's important to note that the Federal Circuit has been inconsistent in its rulings regarding the patentability of software methods claims. Indeed, the state of law in this area may very well stay in flux until the Supreme Court or a full panel of the Federal Circuit clarifies it. ○

Court shelves first-sale doctrine for foreign-made works

It's well-settled law that the owner of a lawfully purchased copyrighted work is generally free to resell that copy of the work without restriction. After all, restricting the sale of such material would hamper the sale of many items, such as books, videos and recorded music.

But what if the work was made overseas? In *John Wiley & Sons, Inc. v. Kirtsaeng* a three-judge panel of the U.S. Court of Appeals for the Second Circuit held that foreign-made works can't be so freely resold. This surprising and potentially far-reaching ruling could restrict resale of a wide range of products produced abroad.

Preface

John Wiley & Sons publishes academic, scientific and educational journals and books for sale in domestic and foreign markets. A wholly owned subsidiary manufactures the books for sale in foreign countries.



Although the content of books for foreign markets may be similar or identical, those books differ from their domestic counterparts in design, supplemental content (such as CD-ROMs) and the material used to print them. The foreign versions are also marked with a legend to designate that they're to be sold only in a particular country or region.

Friends and family members of Supap Kirtsaeng bought copies of foreign editions of Wiley books and shipped them to him in the United States, where he sold them on websites like eBay. Wiley sued Kirtsaeng in 1998, alleging copyright infringement. The company based its claim on Section 602(a)(1) of the Copyright Act, which makes it illegal to import into the United States any copies of a work acquired outside of the country without authorization from the owner of the copyright.

Final chapter

On appeal, Kirtsaeng argued that the first-sale doctrine shielded him from liability. The doctrine, found in Sec. 109(a) of the Copyright Act, permits the owner of a lawfully purchased copyrighted work to resell it without limitations imposed by the copyright holder. The panel acknowledged the tension between:

- Sec. 602(a)(1), which prohibits the import into the United States of copyrighted work acquired abroad without the authorization of the copyright holder, and
- Sec. 109(a), which limits the extent to which the copyright holder can restrict distribution after an initial sale.

It concluded, however, that the first-sale doctrine applies only to works made in the United States and not to foreign-made works.

Afterword

The Second Circuit's decision here conflicts with the Ninth Circuit's earlier ruling in the 2008 case *Omega S.A. v. Costco*. Kirtsaeng is expected to seek a rehearing by the full Second Circuit court, which could set up eventual review by the U.S. Supreme Court. ○

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