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license privileges without consent of the other co-owners. However, license royalties and/or fees must be shared among the co-owners.

The Chinese government may grant compulsory licenses to qualified applicants if: 1) after three years from the date of patent issuance or four years from the filing date, the patent owner fails, without appropriate reasons, to sufficiently use the patent; and 2) the patent owner's treatment of the patent is established to serve as a negative monopolistic function.

Chinese individuals and entities may now apply for foreign patents without first filing for patent protection in China. However, prior to filing in a foreign country, the invention must be submitted for review by authorities of the State Council to avoid national security leaks. The United States has similar provisions.

The enforcement of patent rights has been expanded to 1) prohibit unauthorized third parties from offering for sale patented products or products resulting from a patented

process; 2) removed the "innocent infringer" defense such that wholesalers, retailers, and users are liable for infringement if they use, sell, or offer for sale the infringing product without the patent owner's authorization, notwithstanding their lack of knowledge of the patent, unless they can show that they had a good faith reason to believe that their activity did not constitute infringement. Potential damages have been increased from treble to quadruple for illicit profits, and penalties from 50,000 to 200,000 Yuan, notwithstanding lack of profit from the infringement. Also, if damages cannot be specifically determined, the court can award between 10,000 and 1,000,000 Yuan in compensation. Additionally, prior to trial, patent owners have the right to seek temporary restraining orders, preliminary injunctions, and do discovery to collect evidence similar to practice in Europe and the United States.

A new prior art defense, not available in the United States, provides that if the accused item or process uses technology known before the filing date of the patent, there can be no infringement. Note that the infringer can use such prior art as a defense without establishing invalidity of the patent.

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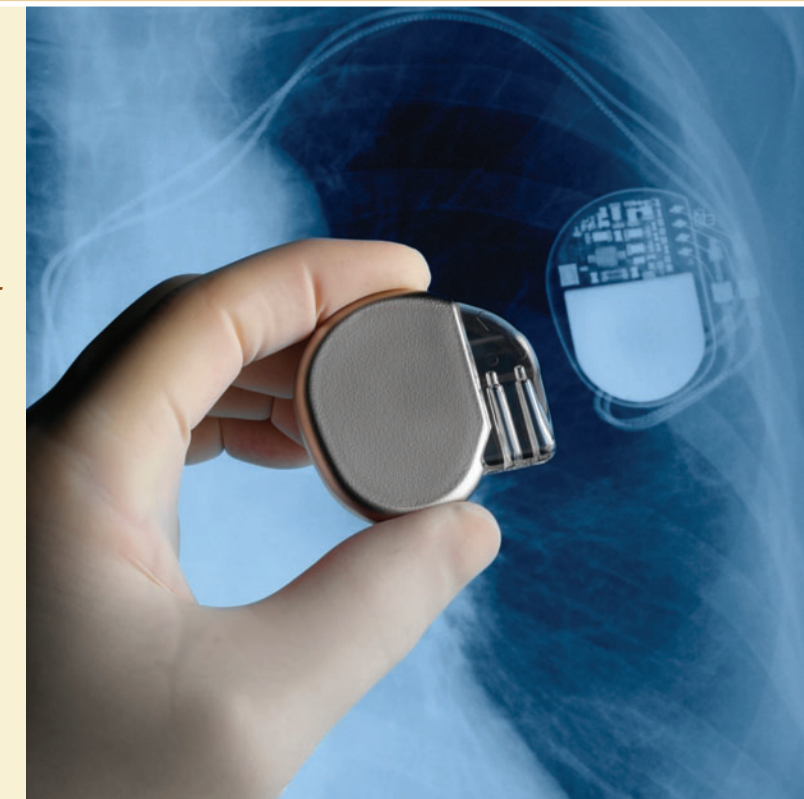
Protecting intellectual property: a smart investment **MAKE IT COUNT**

Method Patents: *Supplying components abroad does not constitute infringement*

Cardiac Pacemakers, Inc. owned a patent claiming a method of heart stimulation using an implantable cardioverter defibrillator (ICD). Cardiac alleged that St. Jude's activities of supplying ICD devices for practicing the method abroad constituted infringement of method claims of a Cardiac patent under 35 U.S.C. §271(f), which provides:

"Whoever without authority supplies...in or from the United States...components of a patented invention...in such manner as to actively induce the combination of such components outside the United States in a manner that would infringe the patent if such combination occurred within the United States, shall be liable as an infringer."

In analyzing dictionary definitions, legislative history, prior United States Supreme Court decisions, and the Court of Appeals for the Federal Circuit (CAFC) rulings, the CAFC concluded that method claims consist of intangible



components (steps) whereas the term "components" referred to in the statute is limited to tangible components. Accordingly, the CAFC, in overruling a previous CAFC ruling, held that 35 U.S.C. §271(f) does not apply to method claims of United States patents. *Cardiac Pacemakers, Inc. v. St. Jude Medical, Inc.*, 576 F.3d 1348 (Fed. Cir. 2009) (En Banc).

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Tidbits of recent developments in IP law

Patents: Federal Circuit raises bar for pleading inequitable conduct

In a recent case, Exergen Corp. sued multiple defendants for alleged infringement of three patents relating to infrared thermometer technology. After submitting its answer to the complaint, defendant SAAT filed a motion to add inequitable conduct as an affirmative defense and counterclaim. The trial court denied the motion. In doing so, the court ruled that inequitable conduct is a form of fraud and, pursuant to Fed.R.Civ.P. 9(b), fraud must be pled with particularity. The Court of Appeals for the Federal Circuit (CAFC) affirmed the ruling and set forth the essential guidelines for properly pleading inequitable conduct pursuant to CAFC law.

“In pleading inequitable conduct in patent cases, Rule 9(b) requires identification of the specific who, what, when, where, and how the material misrepresentation or omission committed before the PTO.” Allegations of failure to disclose must “identify the specific prior art that was allegedly known to applicant and not disclosed.” Allegations of intentional misleading of the PTO must identify the particular misleading actions. Though Fed. R. Civ. P. 9(b) states “malice, intent, knowledge and other conditions of a person’s mind may be alleged generally,” the CAFC stated that the pleading must “allege sufficient underlying facts from which a court may reasonably infer that a party acted with the requisite state of mind.”

The court found that SAAT’s pleading was wholly inadequate to the “who” element, SAAT failed to “name the specific (duty bound) individual...who both knew of material information and deliberately withheld or misrepresented it.” Regarding the “what and where,” SAAT failed to “identify” which claims, and which limitations in those claims, the withheld references are relevant to, and where in those references the material information is found. As to the “why and how,” SAAT failed to provide evidence of materiality by, for instance, identifying the claim limitations absent from information of record. SAAT’s mere pleading that Exergen was aware of the undisclosed prior art was not sufficient to “give rise to a reasonable inference of scienter, including both 1) knowledge of the withheld material information or of the falsity of the material misrepresentation; and 2) specific intent to deceive the PTO.” *Exergen Corp. v. Wal-Mart, Inc., Hana Microelectronics, CVS, SAAT, Daiwa*, 575 F.3d 1312 (Fed. Cir. 2009).



Trade secrets: Tenth Circuit affirms significant exposure for breaching nondisclosure agreement

Medical device inventor Russo entered into a confidential disclosure agreement (CDA) with a medical products company, Ballard Medical Products. After the signing of the agreement, Russo met with representatives of Ballard and provided them with written disclosures, drawings, and a prototype. Ballard expressed interest in acquiring a license to Russo’s technology, but the parties failed to reach an agreement. After negotiations broke off, Russo requested return of the documents that he had previously delivered to Ballard. Though Ballard’s representative promised to have them returned, Russo received nothing. Unknown to Russo at the time, Ballard made use of the work and secured two patents containing the essential innovations in Russo’s prototype and drawing, and introduced a new product to market. The jury found in favor of Russo, awarding him \$17 million in unjust enrichment and \$3 million in damages for breach of a CDA.

Russo filed suit in state court alleging misappropriation of trade secrets and breach of the CDA. Ballard removed the action to Federal Court based on diversity jurisdiction and a forum selection clause in the CDA. Subject matter jurisdiction was an issue on appeal to the Tenth Circuit in view of the existence of the two ill-gotten patents by Ballard. In affirming the trial court on all counts and confirming its jurisdiction, vis-à-vis the Federal Circuit, the court reasoned that Russo’s claims were state court claims, namely breach of contract and misappropriation of trade secrets. Russo’s referring to the patents as evidence showing the misappropriation did not raise a question of federal patent law. *Russo v. Ballard Medical Products*, 550 F.3d 1004 (10th Cir. 2008).



Patent protection in China—

Significant changes

Chinese patent laws are constantly evolving. They were first enacted in 1985 and three amendments followed, namely in 1992, 2000, and October 1, 2009. The 1992 amendment added pharmaceutical compositions as patentable subject matter and inaugurated China’s Patent Cooperation Treaty (PCT) membership. The 2000 amendment brought China’s patent law into compliance with the Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement.

The October 1, 2009, amendment includes changes to patent application requirements, ownership rights, compulsory licensing rules, foreign filing rights, enforcement of patent rights, penalties for patent infringement, prior art defenses, and exemptions. The focus of these changes is to bring China patent law in closer conformance with United States and international standards regarding contractual and litigation practices. As to patent application requirements, public use or public knowledge of an invention anywhere in the world prior to the Chinese filing date precludes patentability. This places China in concurrence with the European Patent convention of absolute novelty. Also, each co-owner of an invention may apply for a patent without the permission of the other co-owners. Regarding ownership, if there is not a prior agreement between patent co-owners, each may use the patent and grant

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