

OREGON INTELLECTUAL PROPERTY NEWSLETTER



Oregon State Bar
Intellectual Property Section

Intellectual Property Student Organization
Lewis and Clark Law School



Letter from the President



Kelly Luzania
IPSO President
kluzania@lclark.edu

The Lewis and Clark Law School's Intellectual Property Student Organization (IPSO) had a great year. We welcomed a new group of IP students with the incoming first year class, all of whom bring fresh enthusiasm for IP law, and who will be a tremendous asset to this law school and the local IP community in the coming years. We also had an active group of IPSO officers: Guy Anderson, vice president, Alison Maddeford, secretary, and Bennett Starnes, treasurer. One of our main focuses this year has been to organize and inform the IP student population on campus.

IPSO hosted a number of interesting IP talks this year, all of which were a huge success. Topics included a panel on IP litigation, a discussion on the implications of Grokster, the "Dark Net" reality by an attorney from the Electronic Frontier Foundation, an IP career panel, and finally, a lecture on patent claim construction in the wake of *Phillips*. Thank you to all of our speakers!

IPSO also hosted a number of social events as well. In October we had the annual IPSO Chili Cook Off. With 12 great chili's to taste, six faculty judges, and a donated keg of Widmer Oktoberfest, it was a tremendous hit on the law school campus. Congratulations to the Chili Cook Off winners! On October 21st, the Oregon Intellectual Property Newsletter (OIPN), which is run by IPSO, hosted the first annual Oregon IP Wine Tasting. It was a great chance to network with the Oregon IP community. Thank you to our generous donors, who allowed OIPN to purchase some really wonderful Oregon wines. In January IPSO celebrated it's holiday party, also a first ever event. Finally, in March IPSO hosted the 4th Annual IPA with the Oregon IPA, allowing practitioners and students to sample a variety of Oregon brewer's IPA beers.

Finally, the OIPN has a whole new staff. Duke Tufty stepped into editor-in-chief position in the spring after nearly two years of Ben Lila's leadership. The newsletter continues to be in good hands.

It has been unbelievable how quickly the year went by. The IPSO membership is continuing to grow, just as Lewis and Clark's reputation as an academic destination for intellectual property law increases. IPSO could not do any of this with our incredible full-time IP faculty, Joseph Miller and Lydia Loren. In the fall Lewis and Clark welcomes a new IP faculty member, Tomas Gomez-Arostegui, from the University of Oslo. The IP program will only continue to strengthen from Tomas' addition to the school.

For those of us graduating in May it is the end of our law school careers. I personally will miss the excellent legal education I have received at Lewis and Clark, but more importantly, I will miss the great group of faculty and students that make up IPSO. Good luck to next year's officers. Here's to the end of a great year!

Inside this Issue

Letter From the President	1
Preserving the Exculpatory Value of an Opinion Letter	2
Field v. Google, Inc	4
Is Something Amiss? A Commentary on the Aftermath of Phillips v. AWH Corp.....	6
Contractual Restrictions on Paired Patented Goods	11
IPXL Holdings, L.L.C. v. Amazon.com, Inc.....	15



**OREGON INTELLECTUAL PROPERTY
NEWSLETTER**

Staff, Spring 2006

Executive Editors

Duke Tufty dukedt@gmail.com
Editor-in-Chief
Sean Walsh walsh@lclark.edu
Submissions Editor

Form & Style Editors

Alice Bray abray@lclark.edu
Alison Maddeford alisonm@lclark.edu
Bennett Starnes bstarnes@lclark.edu
Elizabeth Woodward ewoodard@lclark.edu

Layout Editors

Jesse Abrams abrams@lclark.edu
Matt Marler mmarler@lclark.edu

Text Editors

Gail Gurman ggurman@lclark.edu
Jadran Mihailovic jadran.mihailovic@intel.com
Ann Trader atrader@lclark.edu
Jessica Wilson jwilson@lclark.edu
Eric Meltzer emeltzer@lclark.edu
James Moering jcm@lclark.edu
Yoonhee Chang ychang@lclark.edu
Michael Massa mamassa@lclark.edu
Sarah Petersen sarahp@lclark.edu
Greg Touchton touchton@lclark.edu
Bryan Beel beel@lclark.edu
Peter Tovey ptovey@lclark.edu

Faculty Advisor

Professor Joseph S. Miller
jsmiller@lclark.edu

This newsletter is available online: <http://www.lclark.edu/~ipso/OIPN>

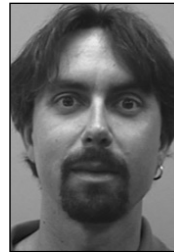
Visit the OSB IP Section website: <http://www.osbar.org/sections/ip.html>

Submissions

Sent to: oipnews@lclark.edu

The Newsletter follows the conventions of the Association of Legal Writing Directors & Darby Dickerson, ALWD Citation Manual (Aspen L. & Bus. 2000).

Preserving the Exculpatory Value of an Opinion Letter



By Shawn Kolitch¹
Lewis & Clark Law School
J.D. Expected 2006
skolitch@lclark.edu

I. Introduction

After a finding of patent infringement, a court has discretionary power to award both treble damages and—in “exceptional cases”—attorney fees to a prevailing plaintiff.² Although the statute does not provide specific guidance as to when treble damages should be awarded or which cases are “exceptional,” a finding of willful infringement is usually a prerequisite for both. While the Federal Circuit recently decided that “no adverse inference that an opinion of counsel was or would have been unfavorable flows from an alleged infringer’s failure to obtain or produce an exculpatory opinion of counsel,” an opinion of counsel typically is an important element in defending against a charge of willfulness.³ However, an opinion must have certain characteristics to serve as an effective defense. This note explores the state of the law regarding the legal sufficiency of an opinion letter as a defense to willfulness.

In *Read Corp. v. Portec*, the Federal Circuit laid out a nine-factor test (the “Read factors”) for making a factual determination of willfulness: “(1) whether the infringer deliberately copied the ideas or design of another; (2) whether the infringer, when he knew of the other’s patent protection, investigated the scope of the patent and formed a good-faith belief that it was invalid or that it was not infringed; (3) the infringer’s behavior as a party to the litigation; (4) defendant’s size and financial condition; (5) closeness of the case; (6) duration of defendant’s misconduct; (7) remedial action by the defendant; (8) defendant’s motivation for harm; and (9) whether defendant attempted to conceal its misconduct.”⁴ In deciding willfulness, a fact-finder is instructed to use these factors to determine, in view of the totality of circumstances, whether “a prudent person would have had sound reason to believe that the patent was not infringed or was invalid or unenforceable, and would be so held if litigated.”⁵

II. Exculpatory Features of an Opinion

Exculpatory opinions are relevant to a number of the Read factors. While they clearly are crucial in weighing the second factor, investigation and belief of



non-infringement, opinions also may bear on other factors, such as the first, third, and ninth factors. For instance, an opinion may help distinguish legitimate efforts to design around from impermissible copying, it may show that the defendant considered and foresaw a possible legal defense, and it may show whether or not the defendant concealed information from counsel. However, to have an exculpatory effect, i.e., to serve as a defense to a claim of willfulness, the Federal Circuit has held that an opinion must be sufficiently 1) thorough, 2) competent, and 3) objective.⁶ Although I will discuss these requirements separately below, it should be appreciated that there is substantial overlap in the necessary features of an opinion.

A. Thoroughness

To defend against a claim of willfulness, an opinion of counsel must be “thorough enough, as combined with other factors, to instill a belief in the infringer that a court might reasonably hold the patent is invalid, not infringed, or unenforceable.”⁷ To meet this standard, opinions must not be “superficial and conclusory in nature.”⁸ A conclusory or incomplete opinion can be found “insufficient to meet the standard of due care appropriate to serve as an exculpatory opinion of counsel.”⁹ Thus, an opinion may not be sufficiently thorough if it is “lacking both legal and factual analysis,” or if the “conclusion of invalidity [is] lacking in both substance and analysis.”¹⁰

While each attorney must judge the sufficiency of his own legal and factual analysis, a few guidelines apply universally. First, unless a truly apparent basis for invalidity—such as a newly discovered statutory bar—can be asserted, an opinion should analyze both anticipation and obviousness in light of the known prior art. This is true even if the opinion ultimately asserts invalidity on some other basis, such as lack of sufficient written description or lack of enablement. Next, even if the opinion relates primarily to invalidity, it should make the best available non-infringement arguments. Finally, and perhaps most obviously, the opinion should carefully state the correct, current legal tests supporting its analysis. Failure to include these minimal elements of an opinion may raise an inference of insufficient thoroughness, and at the very least will provide opposing counsel with an opportunity to call the exculpatory value of the opinion into question.

B. Competence

Since the issue of willfulness only arises when an opinion of counsel has already been found legally incorrect, there is no requirement that an opinion be correct to have exculpatory value. However, the courts still have required that legal advice “be compe-

tent such that the client was reasonable in relying upon it.”¹¹ While the client may not be equipped to weigh the merit of the arguments or whether the legal framework used in the opinion is correct, the courts have held that certain features of an opinion may raise an inference of insufficient competence.

More specifically, the Read court held that a particular indication of incompetence is the conclusory nature of an opinion, because “[a]n honest opinion is more likely to speak of probabilities than certainties.”¹² Without a detailed analysis that carefully weighs the arguments on both sides, “[a] written opinion may be incompetent on its face by reason of its containing merely conclusory statements without discussion of facts or obviously presenting only a superficial or off-the-cuff analysis.”¹³ In other words, to be competent, exculpatory opinions must be carefully reasoned, even if the arguments presented are ultimately rejected by the courts.

C. Objectivity

To be reasonably relied upon by a defendant, a legal opinion also must be objective, because even the most apparently thorough and competent opinion should not be relied upon if it is so one-sided as to entirely ignore strong arguments for validity and infringement. Therefore, an exculpatory opinion generally carries less weight if written by a defendant’s own in-house counsel.¹⁴ Furthermore, if a defendant does rely on an opinion from in-house counsel, “[t]he burden lies with [the defendant] to demonstrate it was justified in believing that its in-house counsel was capable of rendering an independent and competent opinion and that he took the steps normally considered to be necessary and proper in preparing an opinion.”¹⁵

Recent treatises extend similar skepticism to opinions of outside counsel who have worked for the accused infringer for extended periods of time, or who have been heavily involved in litigation for the defendant. For example, after addressing the reasonableness of relying on in-house counsel opinions, one treatise states that “[t]he ‘captive counsel’ argument can also be applied to outside counsel who has done all the legal work for a client over a period of years, and is intimately connected with the client’s business. A case can be made that the jury must be instructed, or that the court consider, that the opinion was rendered by such a ‘captive’ type outside counsel.”¹⁶ Similarly, a recent litigation handbook warns that “[t]he patent attorney should not have a stake in the outcome of any litigation in which the opinion may serve as evidence.”¹⁷

continued on page 5



Field v. Google, Inc.¹



By Jessica Wilson

Lewis & Clark Law School
J.D. Expected 2006
jwilson@lclark.edu

A Nevada District Court held that Google's practice of "caching" websites does not amount to copyright infringement in *Field v. Google, Inc.* Google used an automated process to provide the back-up links so did not act with volition, which is required for direct infringement.² The plaintiff, Field, alleged Google directly infringed his copyright by creating and distributing copies of the works when a user clicks and downloads the material from Google. However, the judge clarified, "it is the user, not Google, who creates and downloads a copy of the cached web page. Google is passive in this process."³

The court also granted summary judgment on Google's four defenses: implied nonexclusive license, estoppel, fair use, and the safe harbor provision under the Digital Millennium Copyright Act.⁴ Besides legitimizing the archival practice of cached copies, the holding is a modest step toward sustaining Google's "Print Library Project," which would allow users to enter a line from a book and retrieve a few sentences of the copyrighted text in response.

The court justified Google's reliance on an implied nonexclusive license in displaying websites in its search results.⁵ Field could have, but deliberately chose not to, opt out of the search database utilizing the "highly publicized and well known industry standard . . . no archive meta-tag" in his code.⁶ Field was also estopped because absence of the "no archive meta-tag" caused Google to reasonably "interpret that silence as permission to display" the data.⁷

The court ruled that allowing users access to cached links constitutes Fair Use. The court emphasized the first and fourth factors of Fair Use in its analysis: the purpose and character of the use, and effect of the use upon the potential market for or value of the copyrighted works.⁸

Google's system cache serves a different purpose than the original works and thus was transformative under the holding in *Kelly v. Arriba Soft Corp.*⁹ In *Kelly*, the Ninth Circuit found search engine's use of copyrighted photographs transformative because it "improv[ed] access to information on the internet."¹⁰

Similarly, Google's cache feature allows users to access inaccessible pages, detect changes over time, and determine the applicability of the page in relation to the search term.¹¹ Additionally, design features clearly delineate between the cached link and the original, and the cached copy contains a disclaimer.¹² Finally, the court considered the fact that authors may opt out using the "no archive meta-tag" to weigh in favor of a finding of fair use.¹³

As to the fourth Fair Use factor, there was no evidence of a market for Field's works because they were available on his website free of charge.¹⁴ The judge rejected any potential market based on licensing to Google because it is not a market the creator would develop or license others to develop.

Finally, Google meets the system caching safe harbor conditions under §512 of the DMCA.¹⁵ The intermediate and temporary storage of data is allowed when the process is automated. The court interpreted 14-20 days as temporary based on applicable precedent.¹⁶ The Google cache satisfies the requirement of 512(b)(1)(C) because the "storage of Web pages [is] carried out through 'an automat[ed] technical process. . . for the purpose of making the material available to users . . . who . . . request access to the material from [Google].'"¹⁷

The biggest hurdle facing Google's "Print Library Project" is the notion of volitional conduct. Unlike the automated process of caching, Google will have to "scan" entire copyrighted works in order to make them available, volitional conduct that amounts to copying regardless of the amount of text available to the end user. However, the Fair Use defense, as articulated by the Nevada court, favors Google.

Endnotes

1. 412 F. Supp. 2d 1106 (2006). Full opinion available at http://www.eff.org/IP/blake_v_google/google_nevada_order.pdf.
2. *Religious Tech v. Netcom On-Line Commc'n Servs., Inc.*, 907 F. Supp. 1361, 1369-70 (N.D. Cal. 1995) (volitional conduct required for direct infringement, automated copying is not actionable).
3. *Field*, 412 F. Supp. 2d 1106 at 11.
4. 17 U.S.C. § 512 (2005).
5. *Field*, 412 F. Supp. 2d 1106 at 11.
6. *Id.* at 12.
7. *Id.* at 13.
8. *Id.* at 14.



9. *Kelly v. Arriba Soft Corp.*, 336 F.3d 811, 817 (9th Cir. 2003).
10. *Id.*
11. *Field*, 412 F. Supp. 2d 1106 at 16.
12. *Id.*
13. *Id.* at 17.
14. *Id.* at 20.
15. 17 U.S.C. § 512(b)(1)(B) (2005).
16. *Ellison v. Robertson*, 357 F.3d 1072, 1081 (9th Cir. 2004) (court held 14 days is transient and temporary for section 512(a), it is applicable to section 512(b)(1) purposes).
17. *Id.* at 24.

continued from page 3

Two recent district court cases indicate the same perspective. In *Chiron Corp. v. Genentech, Inc.*, the court declined to grant summary judgment on the issue of willfulness because opinion counsel “regularly consulted with counsel for [defendant], and [defendant]’s lawyers made revisions to a draft of the opinion letter.”¹⁸ The court observed that the jury “may weigh this evidence in favor of a finding of willful infringement.”¹⁹ The court also described as “tenuous” but “not unreasonable” the plaintiff’s argument that objectivity should also be questioned because opinion counsel had prosecuted several other patents for the defendant.²⁰ In *Yamanouchi Pharm. Co., Ltd. v. Danbury Pharm., Inc.*, defendant contracted with outside opinion counsel, but with a fee structure contingent on profits resulting from any successful patent invalidations.²¹ When defendant was found to infringe and sought to rely on one of the opinions to avoid willfulness, the court pointed out that defendant’s attorney had “a stake in the outcome” of the case, and held in a bench trial that defendant had willfully infringed.²²

Finally, regardless of the choice of opinion counsel, the objectivity of an opinion may be affected by the sources of information relied upon in the opinion. Generally, if opinion counsel relies primarily on subjective sources of information, this weighs against the overall objectivity of the opinion. For example, in *Minnesota Mining and Mfg. v. Johnson & Johnson*, the court affirmed that objectivity was compromised when counsel “obtained his information ... not from an independent expert, but from the president of [the company] who had a stake in the outcome.”²³

III. Conclusions

To have exculpatory value, an opinion must be sufficiently thorough, competent, and objective. Thoroughness and competence typically require that at a minimum, an opinion should compare the claims

at issue with both the prior art and any potentially infringing products, state the correct legal tests for the any bases of invalidity asserted, and weigh any obvious counterarguments. Objectivity may be questioned if the opinion is written by in-house counsel, or by outside counsel who gives the appearance of being “captive counsel” by, for example, participating heavily in the litigation, having a financial stake in the outcome of the litigation, or relying on subjective sources of information. If these pitfalls are avoided, the opinion should help to fend off a charge of willfulness by convincing a fact-finder that “a prudent person would have had sound reason to believe that the patent was not infringed or was invalid or unenforceable, and would be so held if litigated.”²⁴

Endnotes

1. Ph.D. 1996, University of California; M.S. 1990, B.S. 1989 with honors and distinction, Columbia University. Lewis & Clark Law School, J.D. expected 2006. The author would like to thank Elizabeth Tedesco for her research contributions.
2. 35 U.S.C. §§ 284285 (2005).
3. *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337, 1341 (Fed. Cir. 2004).
4. 970 F.2d 816, 827 (Fed. Cir. 1992).
5. *SRI Int’l v. Adv.Tech. Laboratories*, 127 F.3d 1462, 1465 (Fed. Cir. 1997).
6. *Id.*
7. *Ortho Pharm. v. Smith*, 959 F.2d 936, 944 (Fed. Cir. 1992).
8. *Critikon, Inc. v. Becton Dickinson Vascular Access, Inc.*, 120 F.3d 1253, 1259 (Fed. Cir. 1997).
9. *SRI Int’l*, 127 F.3d at 1466.
10. *Id.*
11. *Comark Communs., Inc. v. Harris Corp.*, 156 F.3d 1182, 1191 (Fed. Cir. 1998).
12. *Read*, 970 F.2d at 829, n. 9.
13. *Id.* at 829.
14. *Underwater Devices, Inc. v. Morrison-Knudsen Co., Inc.*, 717 F.2d 1380, 1390 (Fed. Cir. 1983).
15. *S.C. Johnson & Son, Inc. v. Carter-Wallace, Inc.*, 614 F.Supp. 1278, 1309 (D.C.N.Y. 1985), *aff’d*, 781 F.2d 198, 199 (Fed. Cir. 1986).
16. Ethan & Lester Horwitz, *Patent Litigation: Procedure & Tactics*, § 9.07 (10) (2003).
17. Dr. Marta E. Delsingnore, et al., *Selected Aspects of the Impact of Patent Prosecution on Patent Litigation Issues*, 833 Practising Law Institute 241, 290 (2005).
18. 268 F.Supp.2d 1117, 1125 (E.D. Cal. 2002).
19. *Id.*
20. *Id.*
21. 21 F.Supp.2d 366 (S.D.N.Y. 1998).
22. *Id.* at 377.
23. 976 F.2d 1559, 1581 (Fed. Cir. 1992).
24. *SRI Int’l*, 127 F.3d at 1465.



Is Something Amiss?

A Commentary on the Aftermath of *Phillips v. AWH Corp.*¹

By Holly L. Bonar*

Chernoff, Vilhauer, McClung & Stenzel, LLP
hbonar@chernofflaw.com

Two divergent lines of cases emerged in the Federal Circuit in the wake of *Markman v. Westview Instruments*² on the proper methodology to use for defining disputed terms of patent claims. Many of these opinions purported to be consistent with Federal Circuit precedent, yet obvious inconsistencies appeared, causing much uncertainty for patent litigators and prosecutors. The dispute focused on whether a trial court should primarily consider intrinsic evidence—the claims, the specification, and the prosecution history—or extrinsic evidence—mainly general use and technical dictionaries and treatises—to properly construe terms found in patent claims.

On July 21, 2004, the Federal Circuit granted rehearing en banc in *Phillips v. AWH Corp.*³ in part to resolve this claim construction conflict. Ultimately, the court issued a new opinion on July 12, 2005, that held that intrinsic evidence must be the primary source for construing patent claims. The court further reasoned that while extrinsic evidence may be consulted to assist the court in understanding a particular technology, it must be afforded its appropriate weight—subordinate to all of the intrinsic evidence. Although the Federal Circuit in *Phillips* provided practitioners guidance on which to base future claim construction attempts, it admittedly constructed a loose framework designed to be applied on a case-by-case basis.

After *Phillips*, claim construction jurisprudence remains in disarray as the Federal Circuit appears to be applying different parts of its *Phillips* ruling in different cases. The effects of the holding in this case will not be totally clear for some time, as evidenced by the convoluted holdings being handed down post-*Phillips*. To be successful under the current case law, patent litigators must master a comprehensive understanding of *Phillips* and keep abreast of pending decisions applying *Phillips*. Furthermore, patent prosecutors must write precise specifications, focusing on the consistent use of terms between the claims and the remainder of the specification. Although the court may have disappointed many observers when it refused to provide clear guidelines for claim construction in *Phillips*, the case's legacy will be defined more by what it failed to say rather than by its explicit

holdings. The days of the dictionary presumption are over, but where claim construction goes from there remains unclear.

I. *Phillips I*—A Bird that Didn't Fly

In its order granting rehearing en banc in the initial *Phillips* case, the Federal Circuit vacated its previous judgment entered April 8, 2004⁴ and withdrew the opinion of the first panel that affirmed the grant of summary judgment after a claim construction hearing.⁵ In the Federal Circuit's order, the majority invited the parties to file additional briefing and any other interested parties to file amicus curiae briefs on seven questions.⁶ Many of the court's questions focused on the proper weight to assign to different types of evidence used in claim construction.⁷

In the *en banc Phillips* case, the majority held that intrinsic evidence consisting of the claims themselves, the specification, and the prosecution history must be given greatest weight in claim construction.⁸ Further, the majority stated that dictionaries and other extrinsic evidence may be consulted to assist the court in understanding a particular technology.⁹ The court settled upon loosely structured claim construction rules, focusing mainly upon affording each type of evidence its appropriate weight.¹⁰ The majority expressly reaffirmed its decision in *Vitronics Corp. v. Conception, Inc.*¹¹, which held that intrinsic evidence is to be consulted first to construe the claims and that extrinsic evidence is to be used only if the intrinsic evidence fails to provide an adequate definition of a claim term or merely to assist the court in understanding the technology in question.¹²

The *en banc* court openly criticized the claim construction methodology presented in *Texas Digital Sys., Inc. v. Telegenix, Inc.*¹³ The court explained that "the methodology [*Texas Digital*] adopted placed too much reliance on extrinsic sources such as dictionaries...and too little on intrinsic sources."¹⁴ The court acknowledged that looking to intrinsic evidence first may lead a court to mistakenly read limitations from the specification into the claims, but expressed confidence in the district courts to properly perform that task.¹⁵

The facts of *Phillips* allowed the issue of the proper methodology to use for claim construction to be squarely presented. Edward H. Phillips invented vandalism-resistant panels that may be welded



together to form walls capable of fire and noise insulation.¹⁶ After obtaining a patent on the invention, Mr. Phillips disclosed his invention to AWH Corporation, Hopeman Brothers, Inc. and Lofton Corporation (collectively hereinafter "AWH") and agreed to allow AWH to make and sell the products.¹⁷ This agreement ended in 1990.¹⁸ In 1991, Mr. Phillips came across AWH advertising indicating that AWH continued to make and sell his invention without his consent.¹⁹ After failed negotiations, Mr. Phillips filed suit against AWH in 1997 alleging in pertinent part that AWH infringed his patent.²⁰ After determining that the claims at issue contained "means-plus-function" language, the trial court considered the disclosures in the specification that corresponded to the "structure, material, or acts" as required under 35 U.S.C. § 112, 6.²¹ The trial court concluded that the specification failed to disclose baffles found within the wall that were placed at a 90° angle.²² Moreover, the specification referred to baffles placed at any angle other than 90°.²³ Upon ruling that the scope of the claims at issue failed to include baffles placed at a 90° angle, the trial court granted AWH's motion for summary judgment.²⁴

II. Claim Construction Before Phillips—Clear as Mud

Before *Phillips* was redecided in July of 2005, two distinct claim construction methodologies had evolved²⁵: the so-called "dictionary disciples"²⁶ and those abiding by the "specification über alles" rule.²⁷ The "dictionary disciples" support defining claim terms primarily by referencing a dictionary, as long as the dictionary definition is not inconsistent with the specification.²⁸ In contrast, those advocating the "specification über alles" rule maintain that the trial court must first consult the intrinsic evidence of a patent. Only upon failure to find a definition from the intrinsic evidence, may the court consider extrinsic evidence to help define a claim term.²⁹ Many Federal Circuit cases construed claims by one methodology or the other. And while such opinions expressly acknowledged the conflict between the two, they failed to definitively resolve the conflict, thereby leaving the door open for a different panel to further tweak the already-murky rule.

For example, in *Renishaw PLC v. Marposs Societa' per Azioni*³⁰, the Federal Circuit recognized two classic claim construction canons, "(a) one may not read a limitation into a claim from the written description, but (b) one may look to the written description to define a term already in a claim limitation." The *Renishaw* court heralded these canons as being "at the core of claim construction methodology...provid[ing] guideposts for a spectrum of claim construction problems."³¹ The court quoted

with approval from a 1958 CCPA case that "indiscriminate reliance on definitions found in dictionaries can often produce absurd results," and further stated that "where there are several common meanings for a claim term, the patent disclosure serves to point away from the improper meanings and toward the proper meaning."³² Similarly, in *Astrazeneca AB v. Mutual Pharmaceutical Co., Inc.*³³, the Federal Circuit held that "extrinsic evidence...is useful insofar as it 'can shed useful light on the relevant art—and thus better allow a court to place itself in the shoes of a person of ordinary skill in the art' reading the claims alongside the rest of the specification."³⁴ The *Astrazeneca* court acknowledged that some of the Federal Circuit's recent cases "suggest[ed] that the intrinsic record...should be consulted only after the ordinary and customary meaning of claim terms...is determined" and cited a "presumption in favor of a dictionary definition."³⁵ (emphasis added).

Other cases leaned more directly toward one methodology over the other. In *V-Formation, Inc. v. Benetton Group SPA*³⁶, the Federal Circuit held that the "intrinsic record...is [the] primary tool to supply context for interpretation of disputed claim terms...to one of ordinary skill in the art at the time of the invention." On the other hand, in *Superguide Corp. v. DirecTV Enter., Inc.*³⁷, the court held that "dictionaries are often helpful in ascertaining the plain and ordinary meaning of claim language."

In 2002, the Federal Circuit decided *Texas Digital*, which attracted much attention and established itself as the seminal case for the "dictionary disciples."³⁸ The court stated that the terms of a claim "bear a 'heavy presumption'" that the definition intended in the claim is consistent with the ordinary meaning to a skilled person in the art and the trial court should give a claim term such a meaning unless the presumption is properly rebutted, regardless of whether the dictionary definitions have been offered into evidence.³⁹ The court acknowledged that dictionaries may be one of "the most meaningful sources of information to aid judges in better understanding...the technology."⁴⁰ The court further reasoned that the intrinsic evidence relating to the patent should be examined, but only to determine whether it rebuts the presumption in favor of the dictionary meaning.⁴¹ The court concluded that a dictionary definition may only be rebutted where intrinsic evidence clearly uses words that are inconsistent with the ordinary meaning of the claim term found by consulting a dictionary.⁴²

Roughly two years after *Texas Digital*, the Federal Circuit again changed its spots when it decided *C.R. Bard, Inc. v. U.S. Surgical Corp.*⁴³, which held that "extrinsic evidence cannot alter any claim meaning discernible from intrinsic evidence." The court credited



a long line of precedent indicating that “the intrinsic record is the primary source for determining claim meaning.”⁴⁴ In criticizing the plaintiff’s argument that Texas Digital “held” that dictionaries should primarily be consulted when construing claim terms, the court stated that the *Texas Digital* court merely “advised” that such a method would be preferred.⁴⁵ However, this court also failed to clearly state the basis upon which *C.R. Bard* was decided and can possibly be considered dicta itself. Rather interestingly, the *C.R. Bard* court noted that the claim construction issue might soon be resolved by the grant of an en banc rehearing in the *Phillips* case.⁴⁶

The lack of consistency from the Federal Circuit on claim construction methodology pre-*Phillips* was a function of the ever-changing panels of judges assigned to a particular case.⁴⁷ As a result of the obvious disagreement over the proper method to interpret claim terms by members of the Federal Circuit, many observers anxiously awaited claim construction guidance from *Phillips* that might yield some certainty.⁴⁸ Some even heralded *Phillips* as the most important patent case of the decade.⁴⁹

III. Has the Federal Circuit Merely Rearranged the Furniture?

The consequences of *Phillips* were anticipated to be grand, yet they failed to meet the expectations of those who hoped for a monumental change in claim construction jurisprudence.⁵⁰ Rather, *Phillips* signified a departure from the “experiment”⁵¹ that the Federal Circuit was conducting as marked by its decision in *Texas Digital*.⁵² Since *Phillips*, the Federal Circuit has revisited claim construction issues several times, resulting in varying outcomes. In *Nystrom v. Trex Co., Inc.*⁵³, decided only two months after the *Phillips* decision, the Federal Circuit granted rehearing for “the limited purpose of addressing the effects of *Phillips*.” Only two days after *Nystrom*, the Federal Circuit again tested its holding in *Phillips* in *Free Motion Fitness, Inc. v. Cybex Intern., Inc.*⁵⁴ This time the court incorporated a dictionary definition into the claim construction analysis while claiming to follow the *Phillips* rule merely by stating that the specification comported with the dictionary’s definition of the disputed claim term. Ultimately, claim construction methodology remains uncertain and unresolved post-*Phillips*.

A. Is Phillips Making a Name for Itself?

The Federal Circuit granted rehearing in *Nystrom* as a result of its holding in *Phillips*.⁵⁵ The court withdrew its pre-*Phillips* opinion in *Nystrom* and affirmed the district court’s grant of summary judgment of

non-infringement.⁵⁶ In its withdrawn 2004 opinion, the *Nystrom* court claimed that the district court “erroneously construed certain claim limitations” when it defined the terms at issue by following the *Texas Digital* methodology.⁵⁷ The court reasoned that in the absence of a clear definition or disavowal of a meaning in the disclosure, a term must be interpreted from the perspective of a person having ordinary skill in the art at the time of the filing of the application.⁵⁸ The perspective of the ordinary skilled artisan may be found by “reviewing a variety of sources, including the claims themselves; dictionaries and treatises; and the written description, drawings, and prosecution history.”⁵⁹ (emphasis added). These statements imply that dictionaries are higher in priority than the specification for purposes of claim construction.⁶⁰

Upon reconsideration of *Nystrom* post-*Phillips*, the Federal Circuit reversed its claim construction ruling, holding that a claim term must be interpreted in “light of the entire intrinsic record.”⁶¹ The court further noted that the “construction that stays true to the claim language and most naturally aligns with the patent’s description of the invention will be, in the end, the correct construction.”⁶² However, the court also noted that “resort to dictionaries may be helpful.”⁶³ The court stated that “[w]hat *Phillips* now counsels is that in the absence of something in the written description or the prosecution history...that the inventor intended a disputed term to cover more than the ordinary and customary meaning revealed...[in] the intrinsic records, it is improper to read the term to encompass a broader definition simply because it may be found in a dictionary, treatise, or other extrinsic source.”⁶⁴ In lieu of further explanation of *Phillips*, the court in *Nystrom* merely applied the principles already established in *Phillips* and reiterated its policies.⁶⁵

After *Nystrom* appeared to reaffirm *Phillips*, the Federal Circuit decided *Free Motion Fitness* in which the court construed the definition of the word “adjacent” by relying heavily on a dictionary definition. The court began by announcing its adherence to the claim construction methodology presented in *Phillips*, yet concluded without explanation that the term “adjacent” was not defined in the intrinsic evidence or the relevant art and so resorted to a dictionary.⁶⁶ The court focused its *Phillips*-based analysis on the freedom to incorporate dictionary definitions into claim construction and even pointed out that a court may afford a term the full breadth of its ordinary meaning, while presumptively receiving “its broadest dictionary definition or the aggregate of multiple dictionary definitions.”⁶⁷ The court settled on the meaning of “adjacent” to be “not distant.”⁶⁸ In reaching this construction, the court merely referred



to the specification to make sure the dictionary definition did not contradict the one found in the specification.⁶⁹ While the *Free Motion Fitness* court mentioned the *Phillips* methodology, it did not actually apply that methodology.⁷⁰

Since *Phillips*, the Federal Circuit appears to have selected portions of the *Phillips* claim construction methodology to conduct its analysis. On occasion, the court emphasizes that “the specification necessarily informs the proper construction of the claims” and that it is “appropriate for the court...to rely heavily on the written description for guidance as to the meaning of claims.”⁷¹ (emphasis added). It has even criticized parties for failing to rely upon definitions that may be found within the intrinsic evidence.⁷² In other instances, the court has held that dictionaries may be used to help define claim terms if given proper weight, but that intrinsic evidence is of “central importance” and therefore must be consulted first.⁷³ On the other hand, the Federal Circuit has criticized a trial court for improperly importing limitations from the specification into the claims, thereby restricting the claims’ scope to coverage of a single embodiment.⁷⁴ In early January 2006, the majority opinion in *nCube Corp v. Seachange Intern., Inc.*⁷⁵ did not even cite *Phillips*. The dissent noted that fact and itself relied on *Phillips* to support the dissenting opinion, quoting from *Phillips* “the specification is always highly relevant to...claim construction...[and is] usually dispositive.”⁷⁶

B. The Bottom Line

At this point, practitioners may be wondering what practical information may be extracted from *Phillips* and its progeny. The *Phillips* majority opinion failed to completely clarify claim construction methodology and claim construction still appears to be approached by the court on a case-by-case basis.⁷⁷ The specification remains crucial and must be carefully written because it apparently will be the focus of any claim construction. One thing that is clear is that the previous presumption in favor of dictionary definitions has been jettisoned. Therefore practitioners should carefully use terms consistently in the specification and claims.

Ideally, patent prosecutors would properly anticipate the points of novelty in the invention before filing so that they may properly define claim terms as intended in the specification. Prosecutors may wish to consider referring to technical or general use dictionaries when choosing language to describe elements of the invention. Additionally, use of such phrases as “the present invention” or “the preferred embodiment” in the application might best be replaced by “an embodiment,” which is likely to be deemed less

restrictive in the context of litigation. Many prosecutors may cringe at the thought of providing explicit definitions of claim terms because they wish to provide litigators with some flexibility for interpretation of the terms in the future.

Claim construction jurisprudence continues to “percolate,” although recent panel decisions post-*Phillips* do have fewer dissenting opinions. In patents today, it is crucial that both prosecutors and litigators have a comprehensive working knowledge of *Phillips* and its progeny. Definitions of claim terms advocated by trial attorneys ideally will be a nicely meshed hybrid of the definition ascertainable from intrinsic evidence and that gleaned from extrinsic evidence such as a dictionary. And the trial attorney’s job can be made much easier if the patent drafter puts careful thought into crafting a patent application that applies the *Phillips* and post-*Phillips* principles.

Endnotes

- * Several very experienced members of the firm provided me with some advice and guidance from the perspectives of the patent prosecutor and patent litigator. Many thanks to them for their help.
- 1. 376 F.3d 1382 (Fed. Cir. 2004).
- 2. *Markman v. Westview Instruments*, 517 U.S. 370 (1996) (*Markman* held that claim construction is a question of law for the court to decide, affording such rulings de novo review by the Federal Circuit on appeal).
- 3. *Phillips*, 376 F.3d at 1382.
- 4. *Id.*
- 5. *Id.* (the first panel consisted of Judges Newman, Lourie, and Dyk, in which Judge Lourie wrote for the majority and Judge Dyk dissented, see *Phillips v. AWH Corp.*, 363 F.3d 1207 (Fed. Cir. 2004)).
- 6. For a complete list of the seven questions presented by the court, see *Phillips*, 376 F.3d at 1382-83. In a concurring opinion granting the order, Judge Radar presented an additional question asking whether the court should adopt a “strictly algorithmic” set of rules for claim construction analysis. *Phillips*, 376 F.3d at 1384. Chief Judge Mayer dissented from the majority decision to grant the order for rehearing en banc, stating that efforts to “refine the process” of claim construction would be futile until the court is willing to recons *Id*er its opinion in *Markman*. *Phillips*, 376 F.3d at 1384 (holding that the Federal Circuit retains the right to review claim construction rulings de novo).
- 7. *Phillips*, 376 F.3d at 1383-84.
- 8. *Phillips*, 415 F.3d at 1316-1319.
- 9. *Id.*
- 10. *Id.*
- 11. *Vitronics Corp. v. Conceptronic, Inc.*, 90 F.3d 1576 (Fed. Cir. 1996).
- 12. *Id.* at 1312.
- 13. *Id.* at 1319-24, *Texas Digital Sys., Inc. v. Telegenix, Inc.*, 308 F.3d 1193 (Fed. Cir. 2002).



14. *Id.* at 1320.
15. *Id.* at 1323.
16. *Id.* at 1309.
17. *Id.* (Mr. Phillips obtained U.S. Patent No. 4,677,798 on his panels that were at issue in this case).
18. *Id.*
19. *Id.*
20. *Id.* (Mr. Phillips' suit included a claim for trade secret misappropriation that the court held was barred by the statute of limitations).
21. *Id.*
22. *Id.*
23. *Id.*
24. *Id.*
25. *Merck & Co., Inc. v. Teva Pharms. USA, Inc.*, 395 F.3d 1364, 1377-78 (Fed. Cir. 2005), petition for rehearing en banc denied, 405 F.3d 1338 (Fed. Cir. 2005).
26. Darryl Woo, et. al, *Phillips v. AWH Corporation—Revisiting the Rules of Claim Construction: Still No Magic Formula, July 13, 2005*, at http://www.fenwick.com/docstore/publications/Litigation/Litigation_Alert_07-13-05.pdf (last visited Jan. 31, 2006).
27. *Merck*, 395 F.3d at 1377-78.
28. *Id.*
29. *Id.*; *Novartis Pharms. Corp. v. Abbott Lab.*, 375 F.3d 1328 (Fed. Cir. 2004); *Vitronics*, 90 F.3d 1576 (Fed. Cir. 1996).
30. *Renishaw PLC v. Marposs Societa' per Azioni*, 158 F.3d 1243 (Fed. Cir. 1998).
31. *Renishaw* at 1248.
32. *Id.* at 1250.
33. *Astrazeneca AB v. Mutual Pharm. Co., Inc.*, 384 F.3d 1333 (Fed. Cir. 2004).
34. *Id.* at 1337.
35. *Astrazeneca*, 384 F.3d at 1337.
36. *V-Formation, Inc. v. Benetton Group SPA*, 401 F.3d 1307 (Fed. Cir. 2005).
37. *Superguide Corp. v. DirecTV Enter., Inc.*, 358 F.3d 870 (Fed. Cir. 2004).
38. See generally *Texas Digital*, 308 F.3d 1193.
39. *Texas Digital*, 308 F.3d 1202-03.
40. *Id.* at 1203.
41. *Id.* at 1204.
42. *Id.*
43. *C.R. Bard, Inc. v. U.S. Surgical Corp.*, 388 F.3d 858 (Fed. Cir. 2004).
44. *Id.* at 862.
45. *Id.* (the court explained that "the holding in *Texas Digital* was much narrower than that to which the plaintiff alluded in the sense that dictionaries were only used to construe two of the nine claim terms at issue, in which the dictionary was consistent with the term as defined in the intrinsic evidence").
46. *Id.* at 863.
47. Sam Mamundi, *Federal Circuit rules against dictionary use*, Jul. 1, 2005, at <http://www.managingip.com/includes/news/PRINT.asp?SID=525656&ISS-17456> (last visited Jan. 31, 2006). When the U.S. Congress commissioned the formation of the Federal Circuit in 1982, one of its main articulated purposes was to bring consistency to patent law. *The U.S. Court of Appeals and the Federal Judiciary*, at http://www.fjc.gov/history/home.nsf/page/ca_bdy?OpenDocument&Click= (last visited Jan. 31, 2006). Twelve circuit judges are active members of the court. 28 U.S.C. § 44 (1997). A panel for a usual case consists of three active judges. United States court of appeals, at http://en.wikipedia.org/wiki/United_States_court_of_appeals (last visited Jan. 31, 2006).
48. *Phillips*, 415 F.3d at 1330 (Mayer, J. dissenting), Lee Gesmer, et. al, *Federal Circuit Case Addresses Patent Interpretation, Jul. 2005*, at <http://www.gesmer.com/advisory/072005.php> (last visited Jan. 31, 2006). The Federal Circuit reverses claim construction rulings at an astounding rate—with estimates topping 40%. Gregory A. Castanias, et. al, *Petition for Certiorari Filed In AWH Corp. v. Phillips, Dec. 2005*, at http://www.jonesday.com/pubs/pubs_detail.aspx?pubIP=S2973; *Re-Examining Patent Interpretation: Too Little, Too Late?*, at <http://library.findlaw.com/2005/Jan/17/133683.html> (last visited Jan. 31, 2006). A Federal Circuit en banc panel consists of all twelve of its active judges. United States court of appeals, at http://en.wikipedia.org/wiki/United_States_court_of_appeals (last visited Jan. 31, 2006).
49. Lee Gesmer, et. al, *Federal Circuit Case Addresses Patent Interpretation, Jul. 2005*, at <http://www.gesmer.com/advisory/072005.php> (last visited Jan. 31, 2006).
50. *Phillips*, 415 F.3d at 1330 (Mayer, J. dissenting).
51. Professor Joseph S. Miller described the *Texas Digital* line of cases as "an experiment." Professor Miller co-authored an amicus brief to the Federal Circuit in *Phillips*. He was kind enough to share his thoughts on the case and other pertinent issues with me.
52. *Phillips*, 415 F.3d at 1303.
53. *Nystrom v. Trex Co., Inc.*, 424 F.3d 1136 (Fed. Cir. 2005).
54. *Free Motion Fitness, Inc. v. Cybex Intern., Inc.*, 423 F.3d 1343 (Fed. Cir. 2005).
55. *Nystrom*, 424 F.3d at 1138.
56. *Id.*
57. *Nystrom v. Trex Co., Inc.*, 374 F.3d 1105, 1111 (Fed. Cir. 2004), opinion currently withdrawn (the term at issue was the word "board" and whether it would be limited to wood boards cut from a log. The specification failed to disclose a board that was not made of wood cut from a log. One dictionary definition included boards made of synthetic materials in addition to those cut from a log).
58. *Id.* at 1111.
59. *Id.*
60. *Nystrom*, 424 F.3d 1145 (typically, when a district court has first consulted a dictionary, a term's interpretation is broader than if the court primarily considered the specification. Under the *Texas Digital* line of cases, courts allowed parties to present evidence of dictionary definitions that encompassed a multitude of claim term interpretations so long as none of it

continued on page 14



Contractual Restrictions on Paired Patented Goods



By David Copeland¹
Lewis and Clark Law School
J.D. expected 2007
copeland@lclark.edu

I. Introduction

Almost anyone who has installed computer software has seen a “clickwrap” license. Clickwrap licenses require that software users assent to contract terms by clicking a button labeled “I agree” before installing and using the software. Lexmark International (Lexmark) uses a similar technique in its Prebate program, in which customers assent to a license agreement simply by opening a package containing a toner cartridge. The Prebate license restricts the customer to a single use of the toner cartridge and prohibits refilling the cartridge. The Arizona Cartridge Remanufacturers Association (ACRA) recently challenged the Prebate license as unenforceable, claiming unfair and deceptive business practices. This case highlights the interaction of patent law, contract law, and economics. It leaves open the question of how changes in retail purchasing may affect the concepts of contract formation and notice.

Although the U.S. District Court for the Northern District of California² and the Ninth Circuit Court of Appeals³ held that the Prebate contract appeared to be enforceable and rejected ACRA’s claims, the decisions of those courts raise serious concerns about the Prebate program’s effect on consumers. First, courts should require something more than simply opening a box to form a contract because purchasers do not expect physical goods to be governed by license agreements. Second, the Prebate license agreement significantly increases Lexmark’s market power. Since purchasers do not know of the restrictions on the cartridges when buying the original printer, they may undervalue the future operating costs of the printer and give Lexmark a competitive advantage. Third, Lexmark’s competitive advantage allows it to force premature printer upgrades. For example, Lexmark could sell only Prebate cartridges and decline to refill them. As the only source of cartridges, Lexmark could artificially drive up prices or discontinue production, forcing users to buy new printers. In sum, the Prebate contract gives Lexmark significant market power beyond its patent rights to the detriment of the consumer.

II. Summary of the case

Lexmark manufactures new printers and toner cartridges. ACRA is an association of wholesalers who sell remanufactured toner cartridges. Some of Lexmark’s toner cartridges are sold under a Prebate program in which customers are charged a lower price in exchange for agreeing to contract terms⁴ printed on the outside of the toner cartridge box. The agreement requires the customer to “return the empty cartridge only to Lexmark.”⁵

ACRA filed suit against Lexmark and claimed that the Prebate license was a “deceptive and unfair business practice” because the post-sale contract restrictions were not enforceable.⁶ Since the toner cartridge was patented, the District Court in ACRA I held that the enforceability of the post-sale restriction “hinge[d] on whether or not it [fell] within Lexmark’s patent rights.”⁷ The patentee retains different rights after the sale depending on whether the sale qualifies as an unrestricted or conditional sale. Goods purchased in an unrestricted sale are subject to the “patent exhaustion” or “first sale” doctrine which allows purchasers to use, repair, resell, or dispose of the products in any way they wish because the patentee’s rights were “exhausted” by the unconditional sale.⁸ In contrast, conditional sales allow the patentee to impose restrictions on use that are enforceable under patent law.⁹

To evaluate the unfair business practice claim, the District Court sought to balance the harm to the alleged victim against the “reasons, justifications, and motives of the alleged wrongdoer.”¹⁰ For the deceptive business practice claim, the District Court looked for practices likely to mislead consumers in a matter affecting customer choice or conduct.¹¹ Both analyses involved deciding whether the contract was enforceable on its face. The District Court held the single-use condition enforceable and reasoned that the contract terms, clearly printed on the outside of the box, provided end users notice of the single-use condition and provided a subsequent opportunity to reject the condition.¹² Since the single-use condition was enforceable, the District Court found that Lexmark’s statements regarding enforceability were not a deceptive or unfair business practice and therefore granted Lexmark’s motion for summary judgment.¹³

ACRA appealed the grant of summary judgment to the Ninth Circuit. On appeal, ACRA raised the issue of contract validity but did not claim Lexmark’s



actions were beyond its patent rights. The Ninth Circuit held that the contract appeared to be enforceable because customers had notice of the condition, had a chance to reject the contract, and received consideration in the form of a reduced price.¹⁴ The court's holding did not explicitly preclude future challenges to the contract raised by an end user.¹⁵ The Ninth Circuit held that ACRA failed to raise a triable issue of fact that the Prebate licenses were deceptive or unfair competition and affirmed the District Court's grant of summary judgment.

III. Harm to consumers

The single-use restriction upheld in this case poses a significant possibility of consumer harm. First, though not addressed by the court, modern purchasing conditions raise questions about contract formation and notice. Second, the single-use restriction potentially confers two economic benefits to Lexmark: subsequent toner cartridge sales to printer purchasers unaware of Lexmark's market power and subsequent printer sales through forced upgrades.

A. A detailed analysis of contract formation and notice must incorporate modern purchasing methods.

Neither the District Court's nor the Ninth Circuit's opinions addressed notice in detail. This was justified given that both courts were deciding only the facial enforceability of the contract in the abstract. The Ninth Circuit expressly noted that "the contract on its face appears to be enforceable"¹⁶ and that customers were not precluded from challenging the contract.¹⁷ However, on detailed analysis, significant contract issues are likely to be raised.

Customers have no reason to expect to encounter contract terms on the top of a product box. Although computer software is often licensed rather than sold, virtually all tangible consumer goods are sold outright. Stepladders often have "this is not a step" printed on the top support, but most consumers consider this an instruction regarding intended use rather than a binding contract or conditional sale. A reasonably prudent customer, expecting to find contract terms, would certainly read all of the instructions on a product box prior to use. However, without a reasonable expectation of finding contract terms, customers are unlikely to look for them.

If the print is large enough, a purchaser cannot reasonably avoid notice even if contract terms are unexpected. However, normal size type should not be sufficient notice given the purchaser's lack of reasons to look for such terms.¹⁸ Customers should not be presumed to have a duty to read text that is merely

readable or visible when the language is expected to have a different function or appears in an unusual location. It is unfair to presume a simple duty to read a contract when customers are not expecting to see a contract.

Additionally, given the unique purchasing conditions of toner cartridges, a customer may make a purchasing decision before examining the license agreement on the box. In this way, timing and notice are related. Customers may not be able to look at a toner package easily before making a purchasing decision, so notice of the contract terms comes before purchase but after a purchasing decision has been made. Because toner cartridges are small and expensive, they are also prime targets for shoplifting. Many stores keep toner cartridges behind the counter or in glass display cases, requiring customers to ask to examine the box. However, even though customers can ask to see the box to compare contract terms, they have no reason to since contract terms are unexpected. Since customers have no reason to expect a contract, it is possible to make a purchase decision without seeing the contract terms. Even if the customer sees the contract terms after making a purchasing decision, the customer has already mentally committed to purchase by that point. Though not properly a notice issue, the timing issue may affect the customer's decision process.

Finally, the purchaser may buy the toner cartridge sight unseen over the Internet. Expensive items like toner cartridges are especially likely to be purchased over the Internet because the cost savings more than make up for the price of shipping. The purchaser does not need to see the box in person because compatibility is based on printer model number and there are no aesthetic considerations. Lexmark shows the Prebate agreement on its website during internet purchasing.¹⁹ However, resellers vary widely in their treatment of the Prebate terms. Some resellers include the word "Prebate" in the product title but lack any indication of a single-use restriction or the Prebate terms.²⁰ Other resellers indicate the cartridge is only for single-use, omitting the actual terms of the agreement.²¹ Customers unwilling to agree to the license terms will likely be required to send the product back at their own expense and pay the reseller's restocking fee. Lexmark achieves a windfall if customers are unwilling to suffer the additional inconvenience and expense of the return procedure. This windfall may be significant since internet purchasing is rapidly assuming a larger role in the economy.

In summary, presuming notice of contract terms by their presence on a box top ignores the realities of modern purchasing. A detailed analysis of contract formation and notice should account for this.



B. Prebate contract grants Lexmark additional economic benefits beyond the rights conveyed by the patent.

The Prebate agreement gives Lexmark additional market power that it would not otherwise have as a patent holder.²² To illustrate the nature of Lexmark's market power, consider the situation of a Lexmark printer owner when the toner cartridge needs to be replaced. The toner cartridges are covered by Lexmark's patent, which grants Lexmark a monopoly on the manufacture of new cartridges. A printer owner has three choices when a toner cartridge runs out of toner. The printer owner can purchase a new Lexmark toner cartridge from Lexmark. Alternatively, the printer owner can purchase a refurbished toner cartridge from a third party. Finally, the printer owner can purchase a toner refill kit. Only the first choice is permissible under the Prebate license. Lexmark's ability to limit customer choices gives it power in the market to extract additional money from customers.

Lexmark's market power is mitigated somewhat by competition from other printer manufacturers if customers are making fully informed decisions. Customers may assume that competition will equalize prices and that extensive research is not necessary. Customers may also investigate the printer itself but not the toner cartridge market dynamics. Finally, customers may be confused by the large amount of information needed to reach a decision. Customers may find it difficult to factor all necessary information into a purchasing decision regarding assent to the Prebate agreement.

Even if a customer makes a fully informed choice in purchasing the original printer, the market situation could change at any time because Lexmark is able to exert significant control over the remanufactured toner cartridge market by controlling the supply. Though Lexmark sells some unrestricted cartridges that are available to cartridge remanufacturers, it also sells Prebate cartridges that are unavailable to them. Lexmark could eliminate the Prebate program or sell all of its cartridges under the Prebate program. The latter would completely eliminate the supply for remanufacturers such as ACRA and lock them completely out of the market. Even if Lexmark did not stop selling unrestricted cartridges, it could exert subtle control on the market by changing the supply of Prebate cartridges slightly and by altering prices. Customers may end up being forced to pay higher prices or buy a different printer. Because the market shift could happen after a printer has been purchased, even a fully informed purchaser of the original printer may be later caught by surprise.

Lexmark's toner cartridge patent does not grant this market power so it must rely on the contractual license agreement to do so. Lexmark uses a microchip in its Prebate cartridges that performs a "secret handshake" with the printer to ensure the customer complies with the single-use restriction; however this microchip very likely could be replaced without infringing the patent.²³ The "right of repair" or "first sale" doctrine allows purchasers to make minor repairs to patented devices without infringing, although major refitting is barred.²⁴ The District Court in ACRA I noted that Hewlett-Packard was unable to stop a competitor from refurbishing and reselling patented HP toner cartridges that were not covered by a license agreement similar to the Prebate.²⁵ Similarly, in *Jazz Photo Corp. v. International Trade Commission*, the Federal Circuit held that Jazz Photo's refurbishment of a patented "disposable" camera to prepare it for resale was non-infringing repair even though the repair was not performed by the original purchaser.²⁶ These cases suggest the microchip can be replaced without infringing the patent. Therefore, the only barrier to doing this is the Prebate agreement. In the absence of the Prebate license agreement, customers could refill the toner cartridge despite Lexmark's patent.

IV. Preventing consumer harm.

Although examining detailed solutions is out of the scope for a paper of this length, one way to stop Lexmark and other manufacturers from acquiring market power over unpatented goods is to give consumers a right, which cannot be contracted away, to perform minor repairs. An advantage of this solution is that courts already handle the distinction between major and minor repairs in patent infringement cases. Another advantage of using the courts for enforcement is that implementation costs are concentrated on economically significant business areas compared with other solutions that spread implementation costs more widely. This is likely the best solution. Another solution would be for courts to refuse to enforce "product tying" provisions similar to the "patent misuse" doctrine.

V. Conclusion

Contractual restrictions like the Lexmark Prebate agreement can give a manufacturer significant market power. The manufacturer may use this power to cause significant harm to consumers. The best solution appears to be a law preventing private contracts from restricting the right of repair. In any case, manufacturers are just starting to exploit license agreements on physical goods, so ACRA I and ACRA II are just the first of many cases to come on this issue.



Endnotes

1. The author thanks Joseph Miller and Douglas Newell for general conversations and Lydia Loren for her invaluable help in reviewing and commenting on earlier drafts.
2. *Ariz. Cartridge Remanufacturers Assn., Inc. v. Lexmark Intl., Inc.*, 290 F. Supp. 2d 1034 (N.D. Cal. 2003) (ACRA I).
3. *Ariz. Cartridge Remanufacturers Assn., Inc. v. Lexmark Intl., Inc.*, 421 F.3d 981 (9th Cir. 2005) (ACRA II).
4. The license agreement currently reads:
RETURN EMPTY CARTRIDGE TO LEXMARK FOR REMANUFACTURING AND RECYCLING
Please read before opening. Opening of this package or using the patented cartridge inside confirms your acceptance of the following license agreement. The patented cartridge is sold at a special price subject to a restriction that it may be used only once. Following this initial use, you agree to return the empty cartridge only to Lexmark for remanufacturing and recycling. If you don't accept these terms, return the unopened package to your point of purchase. A regular price cartridge without these terms is available.
The Prebate program initially used the following language upon its launch in 1997:
IMPORTANT! READ BEFORE OPENING. Opening this package or using the cartridge inside confirms your acceptance to the following license agreement. License Agreement: Patented cartridge inside sold subject to Single Use Only restriction. It is a violation of this agreement and/or it is unlawful to resell, reuse, refill or remanufacture. If you don't agree, return unopened package to point of purchase.

ACRA II, 421 F.3d at 983-84.
5. *Id.*
6. ACRA I, 290 F. Supp. 2d at 1039.
7. *Id.* at 1037.
8. See *Intel Corp. v. ULSI Sys. Tech.*, 995 F.2d 1566, 1568 (Fed. Cir. 1993).
9. See *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 708 (Fed. Cir. 1992).
10. ACRA I, 290 F. Supp. 2d at 1041 (quoting *Motors, Inc. v. Times-Mirror Co.*, 162 Cal. Rptr. 543, 546 (1980)).
11. ACRA I, 290 F. Supp. 2d at 1041-42.
12. *Id.* at 1045.
13. *Id.* at 1046.
14. ACRA II, 421 F.3d at 988.
15. *Id.* at 988 n. 8.
16. *Id.* at 988.
17. *Id.* at 988 n. 8.
18. The Prebate agreement is typically printed in 12 point type for the first line and 8 point type for the rest. The agreement is noticeable, but hardly jumps out at the unwary.
19. See <http://www.lexmarkstore.com/product.asp?sku=1744576> (accessed Feb. 21, 2006).

20. See http://www.databazaar.com/Inkjet_Cartridge/Product/Laser_Toners_LEX1382925.html (accessed Feb. 21, 2006).
21. See http://www.superwarehouse.com/Lexmark_Optras_17.6K_Prebate_Toner_Cartridge/1382925/p/45395 (accessed Feb. 21, 2006).
22. After the Federal Circuit held that a single-use license restriction was enforceable in *Mallinckrodt*, supra n. 8, commentators predicted that patentees would be able to extract additional revenue. One commentator even suggested single-use toner cartridges as an example. See Richard H. Stern, *Post-Sale Patent Restrictions After Mallinckrodt – An idea in Search of Definition*, 5 Alb. L.J. Sci. & Tech. 1, 12 (1994).
23. *Lexmark Intl., Inc. v. Static Control Components, Inc.*, 387 F.3d 522, 530 (6th Cir. 2001).
24. See Mark D. Janis, *A Tale of the Apocryphal Axe: Repair, Reconstruction, and the Implied License in Intellectual Property Law*, 58 Md. L. Rev. 423 (1999).
25. ACRA I, 290 F. Supp. 2d at 1043-44 (citing *Hewlett-Packard Co. v. Repeat-O-Type Stencil Mfg. Corp., Inc.*, 123 F.3d 1445, 1447 (Fed. Cir. 1997)).
26. 264 F.3d 1094 (Fed.Cir. 2001).

continued from page 10

- obviously contradicted the disclosure).
61. *Id.* at 1142.
 62. *Id.*
 63. *Id.*
 64. *Id.* at 1145.
 65. See generally *Nystrom*, 424 F.3d 1136.
 66. *Free Motion Fitness*, 423 F.3d at 1347-48.
 67. *Id.* at 1348-49.
 68. *Id.* at 1349.
 69. *Id.*
 70. See generally *Free Motion Fitness*, 423 F.3d 1343.
 71. *Network Commerce, Inc. v. Microsoft Corp.*, 422 F.3d 1353, 1360 (Fed. Cir. 2005) (to construe the claims at issue, the court repeatedly referred to the specification to ascertain the meaning of the claim terms).
 72. *Id.*
 73. See *Aquatex Indus., Inc. v. Techniche Solutions*, 419 F.3d 1374, 1380 (Fed. Cir. 2005); *Terlep v. Brinkman Corp.*, 418 F.3d 1379, 1382 (Fed. Cir. 2005).
 74. *Callicrate v. Wadsworth Mfg., Inc.*, 427 F.3d 1361, 1368 (Fed. Cir. 2005).
 75. *nCube Corp v. Seachange Intern., Inc.*, 436 F.3d 1317, 1321 (Fed. Cir. 2006).
 76. *Id.* at 1326.
 77. *Dennis Crouch, En Banc Federal Circuit Changes The Law of Claim Construction, July 13, 2005*, at http://patentlaw.typepad.com/patent/2005/07/en_banc_federal.html (last visited Jan. 31, 2006).



IPXL Holdings, L.L.C. v. Amazon.com, Inc.¹



By Dorothy Schmidt

Lewis & Clark Law School
J.D. expected 2007
dschmidt@lclark.edu

IPXL Holdings, L.L.C. (IPXL) sued internet marketer Amazon.com, Inc. (Amazon) on January 22, 2004, alleging that Amazon's "1-click system" for streamlining its customer-order procedure infringed U.S. Patent No. 6,149,055 ("the '055 patent").² Amazon counter-claimed that the relevant claims were invalid, either as anticipated or as indefinite. Following its resolution of numerous claim construction issues, the District Court for the Eastern District of Virginia first granted summary judgment for Amazon and then, finding the case to be "exceptional," awarded Amazon attorney fees and costs. The Federal Circuit affirmed the summary judgment, but reversed the award of fees and costs.³

The '055 patent, entitled "Electronic Fund Transfer or Transaction System," is directed to self-service financial systems such as automatic teller machines (ATMs). In essence, it allows a user to execute a transaction in fewer steps with repeated use. It does this by storing information defined in a prior transaction, e.g., withdrawing \$20 from a checking account, and displaying it as a choice on a single screen.⁴ Amazon's system allows customers to store information such as credit card numbers and shipping addresses for use in making future "1-click" purchases.⁵

On summary judgment, Amazon argued that four of the five disputed claims were invalid as anticipated by prior art under §102⁶ of the Patent Act.⁷ During patent prosecution, the patentee had argued the prior art did not disclose "displaying transaction information on a single screen."⁸ However, the district judge held that the claims were anticipated by the Coutts patent, which also relates to self-service systems such as ATMs.⁹ The appeals court affirmed, because the Coutts patent disclosed a system wherein "no transaction information need be entered before the single screen displays a plurality of predicted transactions, which are based on previously entered transaction information."¹⁰

Amazon also argued that claim 25 was invalid for indefiniteness under §112 of the Patent Act,¹¹ because it combined an apparatus and a method of using that apparatus in a single claim, and therefore did not "reasonably apprise those skilled in the art of its

scope."¹² This question was one of first impression for the appeals court, which adopted the rule contained in the Manual of Patent Examination Procedure (MPEP)¹³ that "[a] single claim which claims both an apparatus and the method steps of using [it] is indefinite ..."¹⁴ The relevant language of claim 25 reads, "The system of claim 2 [including an input means] wherein ... the user uses the input means to either change [or accept a transaction]."¹⁵ The court held that because "it is unclear whether infringement of claim 25 occurs when one creates [an infringing] system ... or when the user actually uses the input means," the claim was invalid under §112, paragraph 2.¹⁶

It is worth noting that §2173.05 (p)(II) of the MPEP gives a second reason to reject claims of this type under 35 U.S.C. § 101, although it was not cited by the court. It specifies that such a claim should also be rejected because it "embraces or overlaps two different statutory classes of invention."¹⁷ By contrast, §2173.05 (p) opens by stating that "[t]here are many situations where claims are permissively drafted to include a reference to more than one statutory class of invention."¹⁸ In particular, subsection (p)(I) states that "[a] claim to a device, ... may contain a reference to the process in which it is intended to be used without being objectionable under 35 U.S.C. 112, second paragraph, so long as it is clear that the claim is directed to the product and not the process."¹⁹ Claim 25 of the '055 patent made no such clear distinction between the system and the process by which it was to be used.

Amazon was also awarded attorney fees by the district judge under 35 U.S.C. §285. The appeals court reversed this award because Amazon filed its motion 17 days after final judgment was entered, in violation of the 14 day limit required under the Federal Rules of Civil Procedure.²⁰ Amazon also failed to file a motion under Rule 6(b) to enlarge the filing time on the basis of "excusable neglect."²¹ The court held that the district court abused its discretion by enlarging the time because §285 does not exempt requests for attorney fees from compliance with Rule 54.²²

The district court's grant of summary judgment for Amazon was affirmed based on invalidity of the claims at issue. The court did not reach the issue of whether the claims were infringed by Amazon's 1-click system. The district court's grant of attorney fees was reversed because the motion was untimely filed. The court did not reach the issue of whether the case was "exceptional" under 35 U.S.C. § 285.

Endnotes

- 1 *IPXL Holdings, L.L.C. v. Amazon.com, Inc.*, 430 F.3d 1377 (Fed. Cir. 2005).
- 2 *Id.*
- 3 *Id.* at 1378.
- 4 *Id.* at 1378-1379.
- 5 *Id.* at 1379.
- 6 35 U.S.C. § 102 (2002).
- 7 *IPXL Holdings*, 430 F.3d 1377 at 1379.
- 8 *Id.* at 1381.
- 9 *Id.*
- 10 *Id.* at 1383.
- 11 35 U.S.C. § 112, 2 (2002).
- 12 *IPXL Holdings*, 430 F.3d at 1383-1384.
- 13 *Manual of Patent Examination Procedure*. § 2173.05(p)(II) (2005).
- 14 *IPXL Holdings*, 430 F.3d at 1384.
- 15 *Id.* (citing the '055 patent, col. 22, 11. 8-13).
- 16 *IPXL Holdings*, 430 F.3d at 1384.
- 17 *Manual of Patent Examination Procedure*. § 2173.05(p)(II) (2005).
- 18 *Id.*
- 19 *Manual of Patent Examination Procedure*. § 2173.05(p)(I) (2005).
- 20 *Fed. R. Civ. P.* 54(d)(2)(B).
- 21 *IPXL Holdings*, 430 F.3d at 1385-1386.
- 22 *Id.* at 1386.

Presorted Standard
US Postage
PAID
Portland, OR
Permit No. 341

Oregon State Bar
Intellectual Property Section
5200 SW Meadows Road
PO Box 1689
Lake Oswego, OR 97035-0889