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Intellectual Property Update: More News on the Patent Front . . .

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U.S. Supreme Court Decides Another Patent Case and Reverses the Federal Circuit

On June 9, 2008, the U.S. Supreme Court continued its recent trend of reversing decisions by the U.S. Court of Appeals for the Federal Circuit. At issue in *Quanta Computer, Inc. v. LG Electronics, Inc.*, No. 06-937, slip op. (S. Ct. June 9, 2008), was the doctrine of patent exhaustion, that was first applied in 1853 to protect purchasers who had bought patented products "in the 'ordinary pursuits of life.'" *Id.* at 6 (citation omitted). According to the Supreme Court, the "doctrine of patent exhaustion provides that the initial authorized sale of a patented item terminates all patent rights to that item." *Id.* at 5. In *Quanta*, the Supreme Court upheld the long-standing doctrine and then elaborated on its use in today's world.

LG Electronics patented a method for updating copies of data stored in both cache memory (often found on the microprocessor itself) and main memory (also called random access memory or RAM, which is accessed by the microprocessor). LG entered into a license agreement with Intel Corporation that permitted Intel to make, use or sell products that implemented LG's patented method. In a separate agreement, Intel agreed to notify its customers that the LG-Intel license did not extend to any product resulting from the combination of an Intel product with a non-Intel product. Later, Quanta, an Intel customer, purchased Intel parts and combined them with non-Intel memory components to implement LG's patented methods. LG then sued Quanta for patent infringement.

LG argued that the doctrine of patent exhaustion did not apply to patented methods because no tangible article was being sold. The Supreme Court rejected this argument on the grounds that if such an argument were true, it "would seriously undermine the exhaustion doctrine" and "a patent drafter could shield practically any item from exhaustion" by merely patenting the method. *Id.* at 10. The Supreme Court explained that since "methods nonetheless may be 'embodied' in a product, the sale of which exhausts patent rights" and the product Quanta purchased resulted from the patented method, the sale exhausted the patent rights of LG. *Id.* at 9.

In addition, LG claimed that it did not authorize the sale to Quanta and that the exhaustion of patent rights only applies when the patent owner authorizes the sale. The Supreme Court agreed that the doctrine of patent exhaustion only applies to authorized sales but rejected LG's claim that it did not authorize the sale since LG did not restrict Intel's ability to sell products in the LG-Intel license agreement.

In this way, the Supreme Court applied a doctrine first used in 1853 to data processing in computer components. The doctrine of patent exhaustion is alive and well in the information age.

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Patent Office Issues Final Rules Governing *Ex Parte* Appeals

If, during prosecution, a patent applicant remains dissatisfied with an examiner's rejections (after the claims have been rejected at least twice), the applicant may choose to file an *ex parte* appeal to the Board of Patent Appeals and Interferences ("Board"). The U.S. Patent and Trademark Office ("USPTO") issued a final rule (effective 12/10/08) governing such appeals. The USPTO has stated that one purpose of the rule is "to ensure the Board will be able to handle an increasing number of *ex parte* appeals in a timely manner." It seems, however, that the final rule attempts to achieve this objective by making life easier for the Board and more difficult (read, expensive and time-consuming) for the applicant.

The number of formalistic requirements will be increased under the new rules. Among other things, for appeal briefs the new rules will require:

- a. a claim support and drawing analysis section, which will require that drawing figures, page and line numbers or paragraph numbers be provided for each limitation in every independent claim and dependent claim argued separately; and
- b. the length of appeal briefs will now be limited to 30 pages, double-spaced in 14 point font, excluding introductory pages and appendix. A request to exceed the page limit will require a petition and a fee;

Several of the rules are patterned after those governing appeals before the Federal Circuit. For example, for appeal briefs the new rules will now require:

- a. a jurisdictional statement, one stated reason for which is minimizing the chance the Board will consider an abandoned case; and
- b. a statement of facts that must "set out in an objective and non-argumentative manner the material facts relevant to the rejections on appeal," complete with citations to the record during prosecution.

Happily, one bright spot in the new rules is the elimination of the examiner's ability to raise a new ground of rejection in the examiner's answer. Applicants previously had a limited ability to respond to new grounds of rejection raised in the examiner's answer, especially if additional evidence were required to rebut any such new grounds of rejection. Since the examiner will not be able to raise new grounds of rejection in the middle of the appeal, there is no need for the examiner to respond to the applicant's reply to the examiner's answer and such responses will be prohibited. Nor will there be need for the applicant's surreply. Barring the examiner from raising new grounds of rejection in the examiner's answer, as well as eliminating the examiner's response to the applicant's reply and the applicant's surreply, will streamline appeals and avoid piecemeal examination by requiring the examiner to raise all rejections before the case proceeds to the Board.

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