

INNOVATION & PERSPECTIVES

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McCracken and Frank Expands into 2008 and Beyond

Mccracken & Frank LLP started 2008 with an eye towards expansion by welcoming four new partners. James M. Kunick, Erin J. Fox, Nicholas P. Schmidbauer, and Thomas P. Riley assumed their new roles as of January 1, 2008. "We are excited to expand the depth of experience and diversity in terms of work experience and educational training in welcoming the new partners" said William McCracken, managing partner of the firm. "By augmenting our leadership, we provide maximum opportunities for our clients to take advantage of each partner's background."

James M. Kunick brings over fourteen years of experience in a broad range of IP and technology licensing transactions to the firm. He has extensive expertise representing multi-national clients in a wide variety of technology and corporate transactions, including patent, trademark and software licenses, IT transactions, consulting, strategic alliance, reseller, distribution and sales agree-

ments, confidentiality, employment and subcontracting agreements, governance, co-branding and hosting agreements, assignments, stock option and stock and asset purchase agreements, and providing pre-litigation counseling to clients. Additionally, Jim is a frequent lecturer on a wide variety of intellectual property topics at both national and international conferences.

Erin J. Fox began her legal career at McCracken & Frank LLP seven years ago. Her practice is focused primarily patent prosecution in the mechanical, electro-mechanical, and software arts including medical devices and surgical navigation systems. Erin's experience further includes work in industries such as healthcare, household consumer products, printing, tools, extrusion dies, wireless networks, and software. She is involved in all aspects of intellectual property client counseling including providing right-to-practice, patentability, and validity opinions.

Nicholas P. Schmidbauer joined the firm in 2003. Nick currently focuses his practice on drafting and prosecuting patent and trademark applications, preparing validity and infringement opinions, and litigation matters related to patents and copyrights. He works primarily in the mechanical and electro-mechanical arts, with experience in fields such as home products technology and manufacturing processes for such products, aircraft technology, and medical instruments with attendant surgical navigation systems.

Thomas P. Riley focuses his practice on intellectual property portfolio strategy, providing infringement and validity opinions, and preparing and prosecuting patent and trademark applications. Tom's experience spans a variety of disciplines including mechanical, electro-mechanical, and computer software technologies. Additional representative technologies with which he has experience include variable digital printing software, demand optimization software, telecommunications accessories, digital photography, liquid crystal displays, thin film lenses, storage containers, fragancing devices, candles, resealable fasteners, steel coil working lines, water filtration devices, and concrete forming machines. 

Left to right:
 Nicholas P. Schmidbauer,
 Erin J. Fox, James M. Kunick
 and Thomas P. Riley



For full biographies, please visit
www.mccrackenfrank.com

Once-Dead U.S. Patent Reform Act Moves Forward

On 24 January, 2008, the U.S. Senate Judiciary Committee unveiled a draft report of the Patent Reform Act of 2007, S. 1145, 110th Cong. (2d Sess. 2008) (the “2007 Act”). The 2007 Act proposes sweeping changes to U.S. patent law for the first time in over 50 years.

Section 2 of the 2007 Act proposes to change the U.S. patent system to a “first-inventor-to-file” system as opposed to the current “first-to-invent” system unique to the United States. With respect to the right of a patentee to obtain damages, Section 4 of the 2007 Act would require a district court judge to determine the type of evidence and factors a jury must consider when determining damages. Section 5 of the 2007 Act eliminates inter partes reexamination and creates a new post-grant review system.

First-Inventor-To-File System

The switch to a “first-inventor-to-file” system is intended to bring the U.S. Patent and Trademark Office in line with other industrialized nations that have adopted a “first-to-file” system where the objective filing date of a patent, rather than the more subjective invention date, is used to determine priority.

The “first-inventor-to-file” system negates the need for lengthy and expensive administrative proceedings (called interferences) typically used to determine who actually invented first in the rare instance where two parties file a patent application on the same invention. In addition, a “first-inventor-to-file” system provides more clarity with respect to prior art that needs to be examined during the prosecution of a patent application. The proposed “first-inventor-to-file” system retains the one-year grace period provided to inventors, during which an inventor’s disclosure cannot be used as prior art against the inventor’s application.

Right of the Inventor to Obtain Damages

Section 4 of the 2007 Act proposes to clarify 35 U.S.C. § 284 by adding new standards for calculating a reasonable royalty. Under a new subparagraph (c)(1)(A) of § 284, the reasonable royalty may be based upon the entire market value of an infringing product or process where a patentee satisfactorily shows a claimed invention’s specific contribution over the prior art is the predominant basis for market demand for an infringing product or process.

A new subparagraph (c)(1)(B) of § 284 provides that damages can be determined on the basis of non-exclusive licenses that a patentee may have granted to other parties in the marketplace. In such cases, the

patentee must show that the non-exclusive license for the use made of the invention by the infringer had been granted to a number of persons sufficient to indicate general marketplace recognition of the reasonableness of the licensing terms prior to the filing of the case before a court.

Further, the patentee must show that the claimed invention has similar substitutes in the relevant market that have been the subject of such non-exclusive licenses and the court must find that the infringer’s use is of substantially the same scope, volume, and benefit of rights granted under such licenses.

In the event that a patentee is unable to make either of the showings required under subparagraphs (c)(1)(A) or (c)(1)(B), a new subparagraph (c)(1)(C) provides that a court shall conduct an analysis to ensure that a reasonable royalty is applied only to the portion of the economic value of the infringing product or process properly attributable to the claimed invention’s specific contribution over the prior art.

The 2007 act also adds subparagraph (e) to § 284 to provide guidance regarding what activities constitute “willful” infringement. A patentee must now identify—with particularity in a communication to an alleged infringer—each patent claim allegedly infringed by the alleged infringer’s product or process and the relationship of the product or process to such a claim.

The patentee must also show that the infringer intentionally copied the patented invention with knowledge that it was patented or that the infringer engaged in conduct that was not colorably different from conduct that was previously found to have infringed the patent, and which resulted in a separate finding of infringement of the same patent.

Post-Grant Review System

The new system provides an avenue for any person to challenge the grant of an issued patent within 12 months after the patent issues. The new post-grant review system is designed to provide third parties with a quick, inexpensive, and reliable alternative to U.S. district court litigation to resolve questions of patent

validity within 18 months. A challenge would prevail by proving invalidity by a mere preponderance of evidence.

Further, any person can challenge the validity of an issued patent at any time during the life of the patent if such person can show that the continued existence of the challenged patent claim is likely to cause the person significant economic harm and such challenge is filed within 12 months after receiving notice of infringement.

It is important to note that the presumption of validity does not apply under the new post-grant review system. However, a petitioner only has one opportunity to challenge an issued patent under the new post-grant review. Additionally, a petitioner who challenges the validity of a patent in a district court is precluded from filing a petition to challenge the validity of the same patent under the new post-grant review system on any grounds raised, or that could have been raised, at the district court.

Conclusion

The Department of Commerce has expressed the current Bush Administration’s opposition to some of the provisions of the 2007 Act—in particular, the provisions regarding the right of an inventor to obtain damages in Section 4. On the other hand, the Bush Administration supports the efforts to transition the patent system of the United States to a “first-inventor-to-file” system and expressed a preference for the Court of Appeals for the Federal Circuit’s approach to the standard for willfulness determinations discussed in the recent case, *In re Seagate Technology*.

It will be important for inventors, patent owners, and their attorneys to review the proposed reforms and evaluate how such reforms will impact their intellectual property rights. 

For more information, contact **Abimbola Bukoye** at abukoye@mccrackenfrank.com

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Nuijten's Signal: Limiting the Scope of Patentable Subject Matter

In *In Re Petrus A.C.M. Nuijten*, the Court of Appeals for the Federal Circuit (CAFC) analyzed the issue of patentability of a man-made electromagnetic signal in light of 35 U.S.C. § 101. By a vote of 2 to 1, the CAFC concluded that a man-made electromagnetic signal does not fall into one of the four enumerated statutory categories of 35 U.S.C. § 101 (process, machine, manufacture, or composition of matter), and is therefore not patentable subject matter. *In Re Petrus A.C.M. Nuijten*, 500 F.3d 1346 (Fed. Cir. 2007).

In typical digital encoding technology, a continuous time-dependent analog signal is divided into discrete time intervals. A numerical value is assigned to approximate the amplitude of the analog signal over each time interval. The resulting series of numerical values is referred to as a digital encoding of the analog signal. The data comprising the digital encoding may be recorded, transmitted, or played back to approximately reproduce the analog signal.

The fidelity of such a reproduced signal compared to the original analog signal largely depends on the length of the time intervals. Additional data, for example “watermarks,” may be embedded into the digital encoding to prevent unauthorized copying of digital audio and video signals. *Id.* at 1348. However, addition of the embedded data necessarily adds unwanted distortion to the signals. *Id.*

Inventor Petrus Nuijten filed a patent application for a process of embedding additional data into electromagnetic signals reducing added distortion. *Id.* at 1349. Nuijten was allowed patent claims for the process, a device that performs the process, and a storage medium for holding the resulting signals. *Id.* at 1351. However, the Board of Patent Appeals and Interferences (BPAI) affirmed a rejection of an independent claim and three dependent claims directed to the signal itself (the “claimed signal”). *Id.*

The BPAI found the claimed signal to be an abstract idea that “has no physical attributes” and did not fall into any of the four statutory categories of patentable subject matter listed in 35 U.S.C. § 101. *Id.* at 1352.

Reigning In Subject Matter Patentability

In the CAFC opinion, Judge Gajarsa, with Judge Moore concurring, affirmed the BPAI’s decision. In particular, the CAFC dismissed the possibility that the claimed signal was a process—because a process requires action, i.e., a process “is an act, or a series of acts.” *Id.* at 1355, quoting *Gottschalk v. Benson*, 409 U.S. 63, 70 (1972). The CAFC also dismissed the possibility that the claimed signal was a machine—because a machine is “a concrete thing, consisting of parts, or of certain devices and combination of devices.” *Id.*, quoting *Burr v. Duryee*, 68 U.S. 531, 570 (1863). The CAFC further dismissed the possibility that the claimed signal was a composition of matter—because a composition of matter means “all compositions of two or more substances and all composite articles, whether they be the results of chemical union, or of mechanical mixture, or whether they be gases, fluids, powders or solids.” *Id.* at 1357, quoting *Diamond v. Chakrabarty*, 447 U.S. 303, 308 (1980).

Finally, the CAFC dismissed the possibility that the claimed signal was a manufacture—because, while the CAFC admitted the claimed signal was “man-made, in the sense of having been encoded, generated, and transmitted by artificial means,” the CAFC held that Nuijten’s claimed signal was not a manufacture, defining the term “manufacture” to mean a “tangible article or commodity.” *Id.* at 1356. The source of this definition was a dictionary published in

1895 that was used in *American Fruit Growers, Inc. v. Brogdex Co.*, 283 U.S. 1, 11 (1931), a case cited by the U.S. Supreme Court in *Diamond v. Chakrabarty*, 447 U.S. 303, 308 (1980). *Id.*

The CAFC concluded that an electromagnetic signal was not a tangible article because “it is a change in electric potential” and “energy embodying the claimed signal is fleeting and is devoid of any semblance of permanence during transmission.” *Id.* at 1357.

A Spirited Dissent

In a strong dissent, Judge Linn of the CAFC pointed out errors made by the majority in their assertion that the term “manufacture” meant an article that was tangible or permanent. *In Re Petrus A.C.M. Nuijten*, 500 F.3d at 1359-61. Further, Judge Linn noted that neither of the cases cited by the majority (*Brogdex and Chakrabarty*) in support of the assertion that an “article” had to be tangible or permanent addressed issues of tangibility or permanence. *Id.* at 1360. In fact, the U.S. Supreme Court in *Chakrabarty* cited the definition of manufacture in *Brogdex* “only in support of the proposition that the term was ‘expansive’ and that ‘Congress plainly contemplated that the patent laws would be given wide scope.’” *Id.*

Judge Linn also pointed out that

the statutory category of “manufacture” existed in the 1793 Patent Act. *Id.* Therefore, if a dictionary was to be used to construe the meaning of “manufacture,” the dictionary used should be contemporaneous with the 1793 Patent Act. *Id.* at 1361. A contemporaneous dictionary defined “manufacture” as “any thing made by art,” and further defined “art” as “the power of doing something not taught by nature and instinct.” *Id.*

On 11 February, 2008, a petition for rehearing en banc in the case was denied. *In Re Petrus A.C.M. Nuijten*, 2008 U.S. App. LEXIS 2965, at *2 (Fed. Cir. 11 Feb., 2008). Judges Linn, Newman, and Rader of the CAFC dissented from the denial, with Judge Linn reiterating that something “transient” or “fleeting” may still be a “manufacture” under 35 U.S.C. § 101. *Id.* Judge Linn also questioned the sensibility of allowing a claim to a storage medium containing a signal but rejecting a claim to the signal itself, stating that “distinctions that are drawn between signals and storage media containing those signals would appear to apply equally to the distinctions between software and hardware and are artificial at best.” *Id.* at *4. 

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The court affirmed the BPAI holding that the claimed signal is not patentable subject matter.



Mediating for a Cause

J. William Frank, III



J. William Frank, III

After an extensive career in intellectual property law, including high-level positions at corporations and law firms alike, J. William Frank, III, is about to embark on a new path like nothing he has done.

At the end of 2007, in order to concentrate his practice on alternative dispute resolution (ADR) Bill Frank retired as a partner of McCracken & Frank LLP and became Of Counsel to the firm. As Bill enters into a new practice area, he brings with him many years of experience and expertise in client counseling.

Bill's strong development of client relationships in all aspects of his practice naturally led him into a new venue: mediation. "I have always been interested in alternative dispute resolution and I wanted to stay involved with intellectual property in this new part of my career", stated Bill. He continued "alternative dispute resolution is the wave of the future...more and more companies are realizing it is a great way to resolve disputes."

According to Bill, mediation is an attractive alternative to litigation for a multitude of reasons. First, mediation can be helpful to negotiate between two parties who want to have a continuing relationship. Second, mediation can provide solutions that

courts cannot provide. Specifically, mediation agreements can incorporate remedies and solutions that could include other business factors outside the subject of the mediation. Finally, mediation is attractive because the parties are in control and not subject to the rigors of litigation timeframes.

The first, critical steps of this new phase in Bill's career were buoyed with appointments to two prestigious mediation panels. First, he was named a member of the Panel of Neutrals of the International Trademark Association ("INTA"). The Panel of Neutrals is an international panel of experts in trademark and unfair competition law who are also mediators specially trained in ADR procedures. As trained mediators, each member of the Panel of Neutrals applies his expertise and training to help parties resolve their disputes through non-binding mediation or through binding arbitration. ADR may save the parties and our court systems time and money and may shield the parties from unwanted publicity that may result from a public trial.

Second, Bill was also selected as an approved mediator for the Court of Appeals for the Federal Circuit appellate mediation program. The Court mediation program was authorized in 2006 and serves to facilitate agree-

ments between parties in a confidential way with an experienced neutral, third-party mediator to aid in the process. The Court selects qualifying cases that are good candidates for the mediation process. Bill is one of only twenty-four approved mediators for the Court mediation program.

Bill's accolades do not stop at the border. He is also a member of the Chartered Institute of Arbitrators (CIArb) in London, England. The CIArb has over 11,000 members and seeks to promote, facilitate, and develop dispute resolution.

In a relatively short amount of time, Bill has already been hard at work in assisting parties in mediation efforts. His experience and skill shows: he has mediated over 20 matters ranging from construction, merchant/ consumer, auto accidents, return of property, landlord/tenant, and hospital/patient and has resolved about 75% of these matters with an agreement. "The firm is thrilled to have Bill enter into a new and upcoming area and we are confident that he will continue to offer his expertise and client counseling in all areas of the law including alternative dispute resolution" said Bill McCracken. MF

For more information on alternative dispute resolution, please contact Bill at jwfrank@mccrackenfrank.com

"Alternative dispute resolution is the wave of the future... more and more companies are realizing it is a great way to resolve disputes."

- J. William Frank, III

McCRACKEN & FRANK and PROPELSM

Putting Science to Work[®]

Mccracken & Frank LLP announced it will work together with the educational arm of the Illinois Biotechnology Industry Organization (iBIO) and its new PROPELSM program to facilitate the development of new life sciences companies, providing entrepreneurs with access to specialized expertise in intellectual property law on a pro bono basis.

“We are very honored and excited to be part of iBIO’s initiative to bring biotech companies to Illinois and the Midwest and to help start-up entrepreneurs address the legal challenges involved in establishing a business,” said Thomas R. Stiebel, a partner in the biotechnology practice at McCracken & Frank LLP. Firm attorneys and technical specialists will provide educational assistance to life sciences entrepreneurs in the PROPEL program, offering guidance on intellectual property issues.

“iBIO PROPEL helps entrepreneurs access the insight and expertise of the brightest life sciences entrepreneurial minds in Illinois with the goal of increasing life sciences entrepreneurship,” said Ann Reed, the iBIO Institute’s Sr. Director for Operations. “Through one-on-one coaching and pro bono educational services provided by representatives from some of the top business and legal services firms in the state, PROPEL assembles resources for start-up companies that these companies might otherwise be unable to access.”

The iBIO Institute’s new PROPEL program provides intensive education to entrepreneurs in business, economic, and legal matters at no expense to the entrepreneur. The program is designed to promote the development of Illinois life sciences start-

up companies and enhance the survival rates of existing biotech enterprises. It is modeled on the best practices of other U.S. programs, including San Diego CONNECT[®], which has fueled numerous venture-capital funded start-ups in southern California. To date, the iBIO Institute has attracted over \$1 million in funding from major corporate donors, including Takeda Pharmaceuticals North America, Baxter Healthcare Corporation and Astellas US.

As part of their partnership with iBIO, McCracken & Frank LLP hosted a roundtable discussion in January of 2008 that focused on early start-up companies and how these companies can derive value from a strong patent portfolio. Thomas Stiebel and James Kunick presented a wide variety of topics to the attendees including how to identify and secure intellectual property assets, aspects of obtaining worldwide patent protection, strategies to maximize patent filing investment, and ways to exploit intellectual property assets through licensing and third-party investment.

Based in Chicago, the iBIO Institute provides education, training and research to the life sciences community and general public. The Institute implements K-12 and community college education programs, training for biotechnology workers and entrepreneurs, and outreach to minority and other underserved communities. The iBIO Institute is an IRS certified public charity and was founded by the Illinois Biotechnology Industry Organization, which champions the life sciences in Illinois and surrounding Midwest region. 

To learn more about the Institute, visit <http://www.ibioinstitute.org>.

● PROPEL, a joint partnership of iBIO and the iBIO Institute, is a series of programs aimed at increasing the number of life sciences start-ups in Illinois and boosting the success rates of existing companies. PROPEL and the PROPEL Entrepreneurship Center help guide the development of formation-stage and early-stage life sciences companies.





::: Thomas R. Stiebel, Jr.

Thomas R. Stiebel, Jr., a partner, was appointed an arbitrator of the International Arbitration Court of the Wuhan Arbitration Commission (“WIAC”) in the city of Wuhan, China.

WIAC was established in Wuhan for Hubei Province in 2005 to improve the investment environment, promote reform and advance the opening of commercial opportunities internationally. WIAC accepts and hears international commercial arbitration cases and cooperates with other international arbitration institutions including the Beijing Arbitration Commission, the Shanghai Arbitration Commission, the Singapore International Arbitration Center, the Hong Kong Institute of Arbitrators, the Hong Kong International Arbitration Center and the Sino-France Industrial & Commercial Association of France. Currently, the WIAC has at least 97 international arbitrators from mainland China, the United States, the United Kingdom, Hong Kong and Taiwan. More information can be found at <http://www.wiac.org.cn/en/Index.asp>.



::: Jonathan R. Pasky

Jonathan R. Pasky joined the firm as an associate in the spring of 2007 after having worked at a patent law firm in South Bend, Indiana. Jon’s practice focuses on intellectual property protection, enforcement, and counseling. He assists clients with IP portfolio management, focusing on U.S. and international patent and trademark prosecution, strategic business planning and due diligence. Jon is proficient in diverse technical areas including electrical and computer systems, filtration devices, fluid systems, GPS navigation, vehicle systems, medical devices and printing technology. Jon received a B.S. in electrical engineering from Valparaiso University and a J.D. from Valparaiso University School of Law.



::: Nicole A. Bashor

Nicole A. Bashor became a McCracken & Frank LLP associate in September of 2007 after having been a law clerk at the Firm from July, 2006. Her practice includes all aspects of client counseling with a specific focus on patent prosecution and due diligence. Nicole’s technical expertise includes work in the chemical, biological, mechanical, and software arts. Nicole received a B.S. in chemical engineering from the University of Pittsburgh and a J.D. from The John Marshall Law School.



::: Kathleen C. Farrell

Kathleen C. Farrell joins McCracken & Frank LLP as part of the John Marshall Law School’s intellectual property extern program. Katie’s diverse background includes litigation support and various projects related to product design and commercialization. Katie is also integrally involved in the John Marshall Law School Review of Intellectual Property Law as an articles editor. She received her B.S. in Materials Science and Engineering from the University of Illinois at Urbana-Champaign and expects to obtain her J.D. from the John Marshall Law School in May of 2008.

On the Move

McCracken & Frank LLP will be represented at a variety of industry conferences throughout the United States in the upcoming months. We hope to see you there.

- ::: International Technology Law Association Annual Meeting & World Conf
24 - 25 April
Las Vegas, NV**
- ::: Licensing Executives Society International Conference & Spring Mtg
4 - 7 May
Chicago, IL**
- ::: American Intellectual Property Law Association (AIPLA) Spring Mtg
14 - 16 May
Houston, TX**
- ::: Biotechnology Industry Organization (BIO) Annual Meeting
17 - 20 June
San Diego, CA**

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This publication is intended for informational purposes only and reflects the understanding and opinions of the authors. It does not purport to be legal advice or to create an attorney-client relationship. No reader should act on the basis of information contained in this publication without first securing professional legal advice. Information is correct as of 20 February 2008.

:: EXPANDING HORIZONS

New Offices



McCracken & Frank LLP recently moved to a new location at 311 South Wacker Drive in Chicago, Illinois. The well-known architectural firm of Eppstein Uhen Architects of Milwaukee, Wisconsin, created the design details that are featured in the new office space.

“All employees were interviewed before the design was created and we tried to take employee suggestions and incorporate them into the design of the new space,” stated Veronica (Roni) Buckley, McCracken & Frank’s Administrator who acted as project manager overseeing the transition into the new office space. Cutting-edge technology is combined with distinctive artistic touches to create a workspace environment conducive to cooperative engagement and efficiencies. A key in the design was the provision of spaces and other structural features that emphasize the

collegial and friendly environment that is a hallmark of McCracken & Frank LLP. Roni continued, “We are pleased with the new space—it is beautiful and reflective of who we are and what we represent as a firm.”

The move to the new space was engendered by the continued steady growth of the firm since its founding in 2001. With sweeping views of Lake Michigan and spanning just under 15,000 square feet, the new office space features a multitude of conference rooms and break-out rooms, an employee lounge, a state-of-the-art multi-purpose room with complete audio and visual capabilities, frosted glass walls to give the office an open feel and yet provide privacy, and a comprehensive library and research area. Moreover, the new offices allow ample room for expansion in 2008 and beyond.



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INNOVATION & PERSPECTIVES

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