

Last Month at the Federal Circuit

November 2006

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- Affirming a grant of SJ by the Court of Federal Claims, the Federal Circuit held in *Figueroa v. United States*, No. 05-5144 (Fed. Cir. Oct. 11, 2006), that legislation authorizing the diversion of PTO fees to other government programs did not exceed Congressional authority to “promote the progress of . . . useful Arts” under the patent clause of the U.S. Constitution. “In determining whether the legislation was permissible under the Patent Clause,” the Court wrote, “we accord great deference to Congress’s policy determinations.” The Court concluded that there was a rational relationship between the present level of patent fees and Congress’s legitimate objectives under the Patent Clause, and thus affirmed the SJ.
- The Federal Circuit issued opinions in two cases this month addressing the patent reissue provision under 35 U.S.C. § 251. In *Medrad, Inc. v. Tyco Healthcare Group LP*, No. 06-1082 (Fed. Cir. Oct. 16, 2006), the Court held that a failure to file a supplemental declaration in an earlier reissue patent was a sufficient error to form the basis for a reissue application. In *Medtronic, Inc. v. Guidant Corp.*, No. 05-1515 (Fed. Cir. Oct. 12, 2006), the Federal Circuit held that a reissue patent did not violate the recapture rule because there was no deliberate surrender of subject matter. See the summaries in this issue below.
- The Court held that a district court’s award of trademark damages and patent damages for the sales of the same products was an impermissible double recovery in *Aero Products International, Inc. v. Intex Recreation Corp.*, No. 05-1283 (Fed. Cir. Oct. 2, 2006). See the summary in this issue below.

Award of Patent and Trademark Infringement Damages Based on Same Sales Is Impermissible Double Recovery

Beth Z. Shaw

Judges: Rader, Schall (author), Dyk (concurring)

[Appeal from N.D. Ill., Judge Darrah]

In *Aero Products International, Inc. v. Intex Recreation Corp.*, No. 05-1283 (Fed. Cir. Oct. 2, 2006), the Federal Circuit affirmed a district court’s holding of infringement and noninvalidity, but vacated an award of \$1 million in trademark damages as impermissible double recovery.

Aero Products International, Inc. and Robert B. Chaffee (collectively “Aero”) sued Intex Recreation Corporation (“Intex”), Quality Trading, Inc., and Wal-Mart Stores, Inc. in the United States District Court for the Northern District of Illinois for infringement of U.S. Patent No. 5,367,726 (“the ’726 patent”) for sales of inflatable air mattresses and for infringement of Aero’s registered trademark “ONE TOUCH” in conjunction with marketing and sales of the mattresses.

After a jury trial, the district court entered judgment of infringement and noninvalidity in favor of Aero for all asserted claims of the ’726 patent and for the trademark claim. The district court awarded Aero \$6.9 million in total damages, based on the jury’s finding of \$2.95 million for patent infringement damages (which the district court doubled based on the jury’s finding of

willfulness), and \$1 million in trademark infringement damages.

On appeal, Intex argued that the district court’s construction of claims 9 and 12 was incorrect and that under the correct construction, the accused Intex air mattress did not infringe. The disputed claims related to the inflation and sealing of the air mattresses. The district court had construed the claim term “inflation input” to mean the point at which air enters the passageway. Intex argued that the “inflation input” must include the end of the coupling that is most distal from the end of the inflatable body because the inflation input must be above or below, and not within, the valve. Intex asserted that under its proposed claim construction, there was no infringement, but did not argue that the mattress did not infringe under the district court’s claim construction. On appeal, the Federal Circuit held that the claim language, specification, and prosecution history supported the district court’s claim construction of the term “inflation input.” Intex also challenged the district court’s claim construction of the term “complete hermetic seal,” but the Federal Circuit found support for the district court’s claim construction in the claim language, specification, and prosecution history. Accordingly, the Federal Circuit affirmed the district court’s claim construction of both claims.

Intex also argued that claim 12 of the ’726 patent was invalid by reason of indefiniteness because the district court had to rewrite the claim to make it valid. Intex argued that because the claim required both a “substantially hermetic seal under low pressure conditions” and a “complete hermetic seal when the valve is in the closed position,” the claim was indefinite because the terms were ambiguous and inconsistent. The Federal Circuit held that because the claim was

capable of construction, it was not indefinite. Specifically, the Federal Circuit agreed with the district court's finding that the term "complete hermetic seal" refers to the mechanical completeness of the seal, while the term "substantially hermetic seal" refers to the quality of the seal. Accordingly, the Federal Circuit found no error in the district court's determination that claim 12 was not indefinite.

Finally, Intex argued that awarding damages for both patent and trademark infringement constituted an impermissible double recovery. In the district court, Aero had argued that the jury should award patent infringement damages based on a 15.7% reasonable royalty on \$21.8 million in sales of the accused mattresses, and trademark infringement damages based on \$2.2 million in profits (equal to 10% of the \$22 million in sales of the same mattresses). Aero argued that the \$2.95 million for patent infringement and the \$1 million for trademark infringement were compensation for two separate wrongs: (1) infringement of the '726 patent and (2) infringement of the "ONE TOUCH" trademark.

Because the question involved a matter unique to patent law—damages for patent infringement—the Federal Circuit applied its own law to determine the issue, declining to follow a Ninth Circuit case, *Nintendo of Am., Inc. v. Dragon Pac. Int'l*, 40 F.3d 1007 (9th Cir. 1994) (allowing recovery for trademark and copyright infringement damages arising from sales of the same video game cartridges). The Federal Circuit held that its own case law teaches that in determining whether there has been an impermissible double recovery of damages, the inquiry focuses on whether the damages issue arose from the same set of operative facts.

The Federal Circuit found that Aero based its proposed trademark damages solely on the patent infringement damages calculations, and did not rely on any other evidence in support of its trademark damages for infringement of the "ONE TOUCH" trademark. The damages awarded to Aero arose out of the same set of operative facts because all damages were calculated based on the same sales. Because Aero was fully compensated for patent infringement when it was awarded a reasonable royalty based on the sales of the mattresses, the district court should not have awarded Aero profits for trademark infringement based on the same sales. The Federal Circuit accordingly reversed the award of \$1 million in trademark damages.

Judge Dyk concurred, expressing a different opinion for finding no error in the district court's claim construction of the claim term "inflation input."

Limitations Cannot Be Read from the Specification into the Claims, Even When the Limitation Is Disclosed as an Important Aspect of the Invention

David M. Ruddy

Judges: Rader, Bryson, Linn (author)

[Appealed from N.D. Ill., Judge Gettleman]

In *SRAM Corp. v. AD-II Engineering, Inc.*, No. 05-1365 (Fed. Cir. Oct. 2, 2006), the Federal Circuit vacated the district court's (1) denial of partial SJ of invalidity, (2) grant of partial SJ of no invalidity, (3) judgment of liability in favor of SRAM Corporation ("SRAM"), and (4) grant of an injunction against AD-II Engineering, Inc. ("AD-II").

U.S. Patent No. 4,900,291 ("the '291 patent") relates to "precision indexed downshifting" for a bicycle. More specifically, the '291 patent describes "shift actuators" that assure precise downshifting. The claimed invention eliminates the need to manually compensate during shifting with extra movement of shifting mechanisms in order to account for collective slack in the gear shifting system, a movement referred to as "overshifting." Claim 16, the only claim at issue, recites a particular method of shifting bicycle gears.

"[T]his court is not bound by the PTO's claim interpretation because we review claim construction *de novo*." Slip op. at 14.

AD-II manufactures and sells bicycle gear shifts, and SRAM sued many of AD-II's customers selling bicycles with AD-II's gear shifts. Therefore, AD-II sought DJ that the '291 patent was not infringed, and was invalid and unenforceable. AD-II also asserted claims of unfair competition and patent misuse. SRAM subsequently filed suit against AD-II for infringement of claim 16 of the '291 patent. The two cases were consolidated.

While this case was pending in the district court, claim 16 of the '291 patent was construed by the Federal Circuit in a companion case, *SunRace Roots Enters. Co. v. SRAM Corp.*, 336 F.3d 1298 (Fed. Cir. 2003). In *SunRace*, the Federal Circuit held that the term "shift actuator" in claim 16 of the '291 patent means "a mechanism that controls the changing of the gears." *Id.* at 1302. In addition, the Court determined

that “shift actuator” is not limited to a device containing cams. *Id.* at 1307-08.

Guided by the claim construction in *SunRace*, the district court granted partial SJ in favor of SRAM, holding that AD-II infringed claim 16. The district court denied AD-II’s motion for partial SJ of invalidity based on prior art. In the interest of advancing the case, the parties agreed to a joint stipulation, whereby the district court would rule on certain claim construction issues raised by AD-II and treat SRAM’s response to AD-II’s motion for partial SJ of invalidity as a cross-motion for partial SJ of no invalidity. After construing the claim, the district court denied AD-II’s motion for partial SJ. In light of its ruling, the district court granted partial SJ of no invalidity and liability in favor of SRAM and granted SRAM’s request for a permanent injunction.

On appeal, the Federal Circuit affirmed the district court’s construction of the claim term “fixed handgrip” but held that the district court erred in construing claim 16 as requiring a “precision index downshifting” feature. Specifically, the Court agreed with the district court’s determination that the term “fixed hand grip on the end of the handlebar” means “a separate, fixed (non-rotating) hand grip situated over a handlebar, and not the handlebar itself.” Slip op. at 7. The Federal Circuit pointed out that claim 16 describes the handgrip as situated “on” the handlebar, as opposed to reciting that the handgrip is part “of” the handlebar. Additionally, applicant’s statements in the reexamination prosecution history of the ’291 patent supported that construction.

Significantly, however, the Federal Circuit held that the district court erred in holding that claim 16 of the ’291 patent includes the limitation of “precision indexed downshifting.” The Court explained that while *SunRace* recognized that the written description of the ’291 patent describes a system enabling precision index downshifting, nothing in *SunRace* supported the inclusion of a “precision indexed downshifting” element in claim 16. Additionally, the district court erred in importing the additional limitation into the claim from the specification. Pointing to the plain language of claim 16, the Federal Circuit noted that the claim does not recite “precision indexed downshifting,” let alone recite “indexing” of any kind. Therefore, according to the Court, “[a]ll claim 16 requires is a method that takes up lost motion in a bicycle shifting mechanism and then moves the derailleur of that mechanism from one sprocket to another.” *Id.* at 12. Because claim 16 fails to recite indexing of any kind, the Court noted that claim 16 encompasses both indexed and nonindexed shifters alike despite the repeated references in the specification touting the advantages and innovation of the indexing feature.

Finally, the Federal Circuit held that it was not bound by the PTO’s construction of claim 16 as requiring “precision indexed downshifting” to distinguish the invention from the prior art gear-shifting devices that require a user to manually overshift. The Court explained that the PTO erred in construing claim 16 for the same reasons the district court erred in construing the claim. Accordingly, the Court vacated the district court’s claim construction.

The Federal Circuit declined to address the issue of anticipation in view of the unclear record, the parties’ stipulations, and the factual nature of the issue. Therefore, the Court remanded the case for a determination of anticipation.

The Test for Obviousness Does Not Require an Explicit Suggestion in a Particular Reference to Combine References

Panyin A. Hughes

Judges: Michel (author), Rader, Schall (concurring)

[Appealed from D.S.C., Judge Catoe]

In *DyStar Textilfarben GmbH & Co. Deutschland KG v. C.H. Patrick Co.*, No. 06-1088 (Fed. Cir. Oct. 3, 2006), the Federal Circuit reversed the district court’s denial of Appellants’ motion for JMOL of invalidity of claims 1-4 of U.S. Patent No. 5,586,992 (“the ’992 patent”) for obviousness.

“In contrast to the characterization of some commentators, the suggestion test is not a rigid categorical rule. The motivation need not be found in the references sought to be combined, but may be found in any number of sources, including common knowledge, the prior art as a whole, or the nature of the problem itself.”
Slip op. at 7-8.

The ’992 patent discloses a process for dyeing textile materials with catalytically hydrogenated leuco indigo. Traditionally, the process for dyeing textile materials with catalytically hydrogenated leuco indigo involves six steps: “(1) reducing indigo to its leuco form in solution; (2) stabilizing the leuco indigo solution, usually in paste or powder form; (3) creating a preparation tank in which the dried leuco indigo is re-converted to solution form; (4) adding the solution to the dyebath; (5) dipping; and (6) skying.” Slip op. at 4.

The '992 patent improved this process by eliminating the second and third steps. In other words, it permitted a dyer to pour prerduced indigo solution directly into a dyebath and commence dyeing immediately. DyStar Textilfarben GmbH & Co. Deutschland KG ("DyStar") sued C.H. Patrick Co. and Bann Quimica Ltda. (collectively "Bann"), alleging direct, contributory, and induced infringement of the '992 patent. The jury found that Bann infringed the '992 patent and declined to hold the patent invalid for lack of enablement, anticipation, or obviousness. Bann moved for JMOL, or alternatively a new trial, on the issue of invalidity of the '992 patent. The district court denied Bann's motion without opinion, stating that the jury's verdict was reasonable and supported by evidence in the record.

On appeal, the Federal Circuit noted that the law of the regional circuit applies when reviewing motions for JMOL and motions for a new trial and applied Fourth Circuit law to those issues. The Court, however, reviewed the jury's obviousness ruling under its own law, applying the four *Graham* factors. The Court stated that it must consider whether "a person of ordinary skill in the art would have been motivated to combine the prior art to achieve the claimed invention and whether there would have been a reasonable expectation of success in doing so." *Id.* at 6. The Federal Circuit specifically noted that it is important to distinguish between the references sought to be combined and "the prior art" when considering what the prior art teaches. According to the Court, the "prior art" is broader, encompassing textbooks, treatises, and basic principles unlikely to be restated in cited references, and the motivation to combine the cited reference may be found in the prior art as a whole.

Because the parties' dispute centered around the relevance of the cited prior art, and therefore the level of ordinary skill in the art, the Federal Circuit began with the third *Graham* factor. The Court agreed with DyStar that the jury accepted its view that a person of ordinary skill in the art had no knowledge of chemistry and must have found the cited prior art in neither the relevant art nor the analogous arts. Nevertheless, the Court concluded that substantial evidence did not support the jury's findings. The Court explained that the technical problem the '992 patent sought to solve was precisely the same problem the cited references sought to solve, i.e., an improved process for dyeing textiles with indigo. Moreover, the Court concluded that practicing the '992 patent required a "higher-level perspective," not merely "flipping the switch." Thus, one of ordinary skill would have knowledge of chemistry and systems engineering. Accordingly, the Court concluded that the jury's decision to disregard the

cited prior art was not supported by substantial evidence.

Turning to the first *Graham* factor, scope and content of the prior art, the Federal Circuit considered "[w]hat the prior art teaches, whether it teaches away from the claimed invention, and whether it motivates a combination of teachings from different references." *Id.* at 11-12. The Court focused on art relating to the indigo dyeing process as a whole and rejected DyStar's argument that the cited references were nonanalogous art because they reduced indigo by different methods. Because reduced indigo by any reduction method had been used in the indigo dyeing process, prior art involving indigo reduction by other methods constituted analogous art. Thus, the Court concluded, the cited art recited all the limitations of claim 1 of the '992 patent.

The Federal Circuit next considered whether there was motivation to combine the cited prior art. The Court rejected DyStar's argument that Federal Circuit precedent required the cited references themselves to explicitly contain a suggestion, teaching, or motivation to combine the art. The Federal Circuit explained that DyStar, as well as various commentators, had misread the Court's opinions and mischaracterized its suggestion test. As the Court expounded, the suggestion test is not a rigid and categorical test that requires an explicit teaching to combine references be found in a particular prior art reference. Rather, it "not only permits, but *requires*, consideration of common knowledge and common sense." *Id.* at 20 (emphasis in original). The Court further explained that when "no prior art reference contains an express suggestion to combine references, then the level of ordinary skill will often predetermine whether an implicit suggestion exists." *Id.* at 26. The inquiry in such a situation would be "whether the ordinary artisan possesses knowledge and skills rendering him *capable* of combining the prior art references." *Id.* at 21 (emphasis in original).

Having determined that one of ordinary skill in this case is a dye process engineer who would possess knowledge of chemistry and systems engineering, and that the asserted innovation of the '992 patent is merely exploitation of the well-known principle of vacuum packaging, the Court concluded that the invention is the work of a skilled chemist, not an inventor. The Court also held that certain secondary considerations of nonobviousness were insufficient to overcome the Court's conclusion that claim 1 was obvious. The Court also held claims 2-4 invalid for obviousness as they do not recite a nonobvious invention beyond claim 1.

Reissued Pacemaker Patent Did Not Violate Reissue Recapture Rule

Edward J. Naidich

Judges: Michel, Schall (author), Dyk (concurring-in-part and dissenting-in-part)

[Appealed from D. Del., Chief Judge Robinson]

In *Medtronic, Inc. v. Guidant Corp.*, No. 05-1515 (Fed. Cir. Oct. 12, 2006), the Federal Circuit affirmed the decision of the United States District Court for the District of Delaware that claims 15-26 of U.S. Reissue Patent No. 38,119 (“the ’119 patent”), a reissue of U.S. Patent No. 4,928,688 (“the ’688 patent”), did not violate the rule against recapturing surrendered subject matter in a reissue application and, thus, were not invalid.

“When we consider whether subject matter was ‘surrendered,’ we look at whether there was a deliberate withdrawal or amendment in order to secure the patent, as this kind of deliberate action is not the inadvertence or mistake that reissue is meant to remedy.”
Slip op. at 22.

The ’119 patent involves a method and apparatus for treating ventricular asynchrony, a condition in which a person has a defect in his or her heart ventricles. This results in the loss of effectiveness in the pumping of blood. The method of the ’119 patent works through a pacemaker device that either “conditionally” or “unconditionally” paces the two ventricles of the

heart to cause simultaneous ventricular contractions. The “conditional embodiment” requires sensing a depolarization in a first ventricle, then waiting for a predetermined period of time to sense a depolarization in the second ventricle. If no depolarization is sensed in the second ventricle, the device stimulates, or “paces,” the second ventricle with an electrical pulse. In the “unconditional embodiment,” depolarization is sensed in either ventricle and, as soon as depolarization in one ventricle is sensed, both ventricles are immediately paced.

Medtronic, Inc. (“Medtronic”) filed a DJ action in the District of Delaware against Guidant Corporation and three other parties (collectively “Guidant”), alleging that claims 15-26 of the ’119 patent were invalid by reason of violation of the rule against recapturing surrendered subject matter. Following a bench trial, the district court concluded that the ’119 patent was not invalid.

On appeal, Medtronic argued that as-filed claims 1, 7, 15, and 16 of U.S. Patent Application No. 07/299,895 (“the ’895 application”)—the application that later issued as the ’688 patent and was reissued as the ’119 patent—covered the unconditional embodiment and that, during prosecution, their scope was limited to the conditional embodiment.

The Federal Circuit agreed with Guidant and the district court that independent claims 1 and 7 of the ’895 application as filed did not disclose the unconditional embodiment. The Court noted that those claims as filed required the processing of signals, while in the unconditional embodiment, the device does not analyze or process any signals because it immediately and unconditionally stimulates the ventricles. Thus, the Court concluded that the recapture rule did not apply with respect to those claims.

The Court, however, agreed with Medtronic that as-filed claims 15 and 16 of the ’895 application did include the unconditional embodiment and, after an examiner’s amendment, claims 15 and 16 no longer covered the unconditional embodiment. Nevertheless, the Court concluded that there was no deliberate surrender of subject matter to obtain allowance of the claims. Specifically, the Court found that it was clear from the prosecution history that neither the examiner nor the prosecuting attorney considered the unconditional embodiment a part of the invention. Moreover, the Court found that there was no evidence that the unconditional embodiment could not have been included in the original patent. Nor was there any evidence that the unconditional embodiment was deliberately surrendered in an effort to overcome a prior art rejection. Thus, the Court concluded that because claims 15 and 16 were not amended over prior art, but made as clarifying amendments, there was no clear admission that the unconditional embodiment was not patentable. The Federal Circuit also agreed with the district court and Guidant that Dr. Mower did not clearly and unmistakably surrender the unconditional embodiment in claims 15-26 through arguments made during prosecution.

Medtronic further argued that claims 15, 16, and 22-26 of the ’119 patent were invalid because they recaptured an embodiment with only one sensing electrode that was recited in originally filed claim 7, but was amended to surrender sensing in only one ventricle. The Court, however, agreed with Guidant and the district court that as-filed claim 7 did not include an embodiment with only one sensing electrode, and thus there was no surrender of such an embodiment. In particular, the Court noted that as-filed claim 7 referred to a “bi-ventricular pacemaker,” indicating that sensing is done in both ventricles. The claim also used the term “detecting cardiac signals,” indicating that several sensing electrodes would be used.

Thus, the Federal Circuit agreed with the district court that claims 15, 16, and 22-26 of the '119 patent were not invalid for recapturing an embodiment with only one sensing electrode. Moreover, the Court also found that an embodiment with only one sensing electrode was not surrendered by arguments made during prosecution.

Judge Dyk, concurring-in-part and dissenting-in-part, wrote that he believed that the '119 patent claims 15-26 impermissibly recaptured the unconditional embodiment. In his view, the timing and content of the prosecuting attorney's statements and the examiner's amendments to claims 15 and 16 led to the conclusion that the unconditional embodiment was deliberately surrendered during prosecution of the original patent.

Errors Without Deceptive Intent Under Section 251 Are Not Limited to the Actual Claim Language

Michael J. Leib, Jr.

Judges: Michel, Archer, Linn (author)

[Appealed from W.D. Pa., Judge Lancaster]

In *Medrad, Inc. v. Tyco Healthcare Group LP*, No. 06-1082 (Fed. Cir. Oct. 16, 2006), the Federal Circuit reversed the district court's grant of SJ of invalidity of U.S. Reissue Patent No. 37,602 ("the '602 patent") because the defect that formed the basis for the '602 patent was within the plain meaning of 35 U.S.C. § 251.

The '602 patent relates to patient infusion systems for use with magnetic resonance imaging systems. There were two predecessor patents to the '602 patent, U.S. Patent No. 5,494,036 ("the '036 patent") and U.S. Reissue Patent No. 36,648 ("the '648 patent"), both of which were assigned to Medrad, Inc. ("Medrad"). Less than two years after the '036 patent issued, Medrad filed an application for reissue of the '036 patent and submitted reissue declarations stating that the inventors had claimed less than they had a right to claim (correcting an "underclaiming" error). During prosecution of the reissue, Medrad corrected the underclaiming error and also corrected inventorship and narrowed the scope of some of the claims (correcting an "overclaiming" error). Medrad did not submit supplemental reissue declarations regarding the overclaiming or inventorship errors as required by 37 C.F.R. § 1.175. That reissue application issued as the '648 patent.

Subsequently, Medrad filed a complaint with the ITC alleging that illegal importation of devices infringed the '648 patent. On a motion for SJ, the ALJ found the '648 patent invalid due to Medrad's failure to file supplemental reissue declarations regarding the overclaiming and inventorship errors. Before the ALJ's initial determination became final, Medrad filed an application for reissue of the '648 patent, seeking to correct the declaration error. That application resulted in the '602 patent. The '602 and '648 patents have identical specifications and claims. The only difference between the two reissue patents is that Medrad filed supplemental declarations during prosecution of the '602 patent that allegedly corrected the failure to do so during the prosecution of the '648 patent.

Medrad filed suit against Tyco Healthcare Group LP, Mallinckrodt Inc., Liebel-Flarsheim Co., and

Nemoto Kyorindo Co., Ltd. (collectively "Tyco"), alleging infringement of the '602 patent. In a motion for SJ, Tyco argued that the '602 patent was invalid under 35 U.S.C. § 251 because the reissue did not correct one of the four statutorily defined errors: a defect in the specification, a defect in the drawings, or an error in either claiming too much or too little in the patent. The district court construed § 251 as requiring some error in the specification, drawings, or claims of the patent be corrected as a result of the reissue process. Therefore, the district court granted Tyco's SJ motion because the error that Medrad corrected was "procedural" and not an error within the scope of § 251.

“[T]he express terms of [§ 251] do not refer only to errors in the claim language itself,” Slip op. at 7.

On appeal, the Federal Circuit reversed the district court's judgment of invalidity, concluding that the plain language of § 251 can encompass any error that causes a patentee to claim more or less than he had a right to claim. Section 251, which sets forth the requirements for obtaining a reissue patent, states that an inventor may obtain a reissue patent when the predecessor patent is "deemed wholly or partly inoperative or invalid, by reason of a defective specification or drawing, or by reason of the patentee claiming more or less than he had a right to claim in the patent." The Court explained that § 251 is not limited only to errors in the specification or claim language, as Tyco argued. Tyco failed to identify, and the Court could not find, any support in the language of § 251, in the statutory scheme, or in the legislative history to indicate that the disputed language of § 251—"by reason of the patentee claiming more or less than he had a right to claim in the patent"—limits the types of errors that are correctable to those errors that occur in the actual language of the claim. Thus, Medrad's inadvertent failure to file supplemental

declarations during prosecution of the '648 patent, which resulted in the patent's invalidity, was correctable under § 251.

The Federal Circuit declined to consider Tyco's arguments that SJ of invalidity should be affirmed because Medrad's declarations that resulted in the '602 patent do not comply with 37 C.F.R. § 1.175. Because the district court expressly declined to consider this issue, the Court refused to consider it in the first instance and remanded.

Federal Circuit Affirms Rule That Varietal Names Are Generic

Timothy A. Lemper

Judges: Michel, Lourie (author), Ellis (District Judge sitting by designation)

[Appealed from PTO, Board]

In *In re Pennington Seed, Inc.*, No. 06-1133 (Fed. Cir. Oct. 19, 2006), the Federal Circuit reaffirmed the validity of the PTO's long-standing precedent and policy of treating varietal names as generic designations that cannot be registered as trademarks.

In 1981, KRB Seed Company, LLC ("KRB") obtained protection for a new variety of grass seed from the USDA's Plant Variety Protection Office ("PVPO"), which awards certificates of protection under the Plant Variety Protection Act ("PVPA") for new plant varieties. In its application, KRB designated the term "Rebel" as the varietal (or cultivar) name for its grass seed.

In 2001, KRB applied to the PTO to register "Rebel" as a trademark for grass seed. The examiner refused registration on the ground that "Rebel" was a varietal name for a type of grass seed, and thus should be treated as a generic designation under PTO policy.

KRB appealed to the Board, which affirmed the examiner's decision. The Board relied on a line of cases holding that varietal names are generic designations, beginning with *Dixie Rose Nursery v. Coe*, 131 F.2d 446 (D.C. Cir. 1942), *cert. denied*, 318 U.S. 782 (1943). The Board also relied on other sources indicating that varietal names are generic designations, including TMEP § 1202.12, which states that varietal or cultivar names "amount to the generic name of the plant or seed by which such variety is known to the public," the International Convention for the Protection of New Varieties of Plants ("UPOV"), which requires each new plant variety to be assigned a varietal name that will be the generic designation for the

plant, and the PVPA, which requires applicants seeking protection for new plant varieties to designate names for the varieties. The Board concluded that "Rebel" became a generic designation for a type of grass seed when KRB designated it as the varietal name of its grass seed in its PVPA application.

"If an applicant wishes to establish trademark protection for its variety of grass seed, it can do so by associating a particular brand name with its grass seed. However, having designated the term 'Rebel' as the varietal name for grass seed and having failed to associate any additional word with the Rebel grass seed that would indicate the seed's source, Applicant here is prohibited from acquiring trademark protection for the generic and only name of that variety of grass seed."
Slip op. at 9.

Pennington Seed, Inc. ("Pennington") acquired KRB's application and appealed the Board's decision to the Federal Circuit, which affirmed the Board's decision.

First, the Court held that the PTO's per se rule that varietal names are generic designations was consistent with the Court's test for genericity, which requires proof that the mark's primary significance to the public is as a generic term.

According to the Court, the PTO's policy of treating varietal names as generic terms was "an established principle" based on sixty years of persuasive case law, that the principle was reflected in the UPOV and the PVPA, and that it was consistent with public policy because new plant varieties must be given names and those varietal names may be the only names that purchasers use to designate particular plant varieties.

Turning to the case at hand, the Court found conclusive evidence that "Rebel" was a varietal name for grass seed, including KRB's application with the PVPO designating "Rebel" as the varietal name for its grass seed, articles listing "Rebel" as a cultivar name for tall fescue grass seed, an excerpt from the UPOV's database listing "Rebel" as the name of a tall fescue grass seed variety, and KRB's use of "Rebel" as the name of its grass seed in its catalog.

Based on this evidence, the Court concluded that the "Rebel" varietal name was known to the trade as a generic designation for the grass seed. "When a purchaser asks for that particular type of grass seed," the Court wrote, "he has no other name to use but its

designated name. The purchasing public only has the term ‘Rebel’ to refer to this particular product.” Slip op. at 8. The Court held that, because “Rebel” was a varietal name, “the term was generic from its first use and thus is not entitled to trademark registration.” *Id.* at 5.

The Court contrasted the use of varietal names for plant varieties with pharmaceutical products, which are given a generic drug name but are marketed with a different brand name.

Second, the Court dismissed Pennington’s argument that the PTO’s varietal name policy was inconsistent with public policy and legislative history indicating that a name can be used to indicate both a product and its source. The Court noted that the authorities Pennington relied upon involved registered marks that had become generic over time. In contrast, the Court held that varietal names like “Rebel” are never registrable as trademarks because they are generic from their first use.

Finally, the Court rejected Pennington’s argument that the PTO’s varietal name policy was inconsistent with the U.S. Supreme Court’s holding that the existence of patent protection for a product does not preclude trademark protection for the same product in *TrafFix Devices, Inc. v. Marketing Displays, Inc.*, 532 U.S. 23 (2001). Pennington argued that PVPA protection of its grass seed variety should not preclude trademark protection for the varietal name it designated for its grass seed.

The Court found *TrafFix* inapposite because it concerned whether a feature of an expired patent could acquire trade dress protection. In contrast, the treatment of varietal names does not concern trade dress protection for a functional aspect of a plant.

The Federal Circuit thus confirmed the validity of the PTO’s per se rule treating varietal names as generic designations incapable of registration as trademarks.

Incorporation of AAA Rules in License Creates Clear and Unmistakable Intent to Arbitrate

Meredith H. Schoenfeld

Judges: Newman (dissenting), Schall, Prost (author)

[Appeal from S.D. Cal., Judge Brewster]

In *Qualcomm Inc. v. Nokia Corp.*, No. 06-1317 (Fed. Cir. Oct. 20, 2006), the Federal Circuit considered

the propriety of a district court’s denial of a motion to stay litigation pending arbitration.

In July 2001, Qualcomm Incorporated (“Qualcomm”) and Nokia Corporation (“Nokia”) entered into a licensing agreement that included a broad arbitration clause specifying that “[a]ny dispute, claim, or controversy arising out of or relating to this

Agreement . . . shall be settled by arbitration” In November 2005, Qualcomm sued Nokia for patent infringement in the United States District Court for the Southern District of California. While the technology involved in the patent infringement lawsuit did not appear to relate to the technology encompassed by the license agreement, Nokia asserted that one specific assertion made in the complaint involved technology that it “believes is licensed under the . . . Agreement.” Nokia also sought to assert the affirmative defense of estoppel, in which it asserted that Qualcomm engaged in misleading conduct that caused Nokia to believe that Qualcomm did not hold any patents it intended to assert against Nokia’s products. Accordingly, Nokia instituted arbitration via the arbitration clause in the agreement and filed a motion to stay litigation. The district court denied the motion to stay.

On appeal, the Federal Circuit indicated that it “applies regional circuit law to questions of arbitrability that are not ‘intimately involved in the substance of [the] enforcement of a patent right’” in determining the standard of review that should be applied. Slip op. at 7. The Federal Circuit ultimately concluded that regardless of what standard of review the Ninth Circuit would apply, the district court erred because it undertook a full arbitrability analysis as if the parties had not clearly and unmistakably delegated arbitrability decisions to an arbitrator.

Under the Federal Arbitration Act, a district court must stay the judicial proceeding in favor of the arbitration if the court is “satisfied that the issue involved . . . is referable to arbitration.” In this case, the Federal Circuit considered whether the district court properly determined that the issue was not referable to arbitration.

The Federal Circuit then put forth a two-part analysis. First, the district court must ask who has the primary power to decide arbitrability under the relevant agreement. This, in essence, becomes a question of whether the parties clearly and unmistakably intended

“If the court concludes that the parties clearly and unmistakably intended to delegate the power to an arbitrator, then the court should also inquire as to whether the party’s assertion of arbitrability is ‘wholly groundless.’” Slip op. at 13.

to delegate arbitrability decisions to an arbitrator. Second, if the court concludes that the parties did not clearly and unmistakably intend to delegate arbitrability decisions to an arbitrator, the general rule that the question of arbitrability is for judicial determination applies and the court should undertake a full arbitrability inquiry in order to be satisfied that the issue involved is referable to arbitration.

If, however, the court concludes that the parties did clearly and unmistakably intend to delegate the power to decide arbitrability to an arbitrator, then the court must perform a limited inquiry as to whether the assertion of arbitrability is “wholly groundless.” If the court finds that the assertion is wholly groundless, then it may conclude that it is not “satisfied” under section 3 of the Federal Arbitration Act and deny the moving party’s request for a stay. If the court concludes that the assertion is not wholly groundless, then it should stay the trial of the action pending a ruling on arbitrability by an arbitrator. The Federal Circuit explained in a footnote that this “wholly groundless” analysis serves as a check on a party’s ability to assert “any claim at all, no matter how divorced from the parties’ agreement, to force an arbitration.” *Id.* at 11 n.5.

In analyzing the first step, the Federal Circuit looked at the agreement and concluded that the incorporation of the American Arbitration Association rules (“the AAA rules”) “evidences a clear and unmistakable intent to delegate the determination of arbitrability to an arbitrator.” *Id.* at 10. The Federal Circuit thus concluded that the district court should have limited itself to answering whether Nokia’s assertions of arbitrability were “wholly groundless” and remanded the case to the district court.

Judge Newman wrote a one-line dissent, in which she stated that she would affirm the judgment of the district court.

Patentee Is Not Prevented from Recovering Royalties Until Licensee Challenges the Validity of the Patent

John W. Cox

Judges: Michel (author), Archer, Linn

[Appealed from N.D. Ga., Judge Thrash]

In *Go Medical Industries Pty., Ltd. v. Inmed Corp.*, Nos. 05-1241, -1267, -1588 (Fed. Cir. Oct. 27, 2006), the Federal Circuit affirmed the district court’s grant of SJ of patent invalidity, denial of prejudgment interest, and reduction of the jury award for trademark

infringement, but the Court vacated the district court’s reduction of damages for breach of contract. The Court also upheld a permanent injunction against Medical Marketing Group, Inc. (“MMG”) and Rüsçh, International (“Rüsçh”).

Dr. Alexander G.B. O’Neil obtained U.S. Patent No. 4,652,259 (“the ’259 patent”) for his invention of a catheter with a sheath that does not extend beyond the natural pressure barrier of the urethra, thereby reducing the likelihood of infection due to use of a catheter. The ’259 patent issued from a CIP that claimed priority to an application filed on September 12, 1979. Dr. O’Neil founded Go Medical Industries Party, Ltd. (“Go”), which manufactures and markets the catheters of the ’259 patent.

Go entered into a contract with MMG, a predecessor to defendant-appellant Alpine Medical, Inc., granting MMG the exclusive right to distribute the O’Neil catheters in the United States. MMG sold the catheters under the name “MMG/O’Neil” and registered that mark on January 12, 1993. The contract did not include a provision licensing the right to use the “O’Neil” mark.

C.R. Bard began to sell a competing catheter in 1992. MMG urged Go to sue for infringement of the ’259 patent, which Go did. The district court found the ’259 patent unenforceable due to inequitable conduct and invalid as anticipated in March 1999. The Federal Circuit reversed and remanded in August 2000. That case later settled. Nonetheless, in June 1999, MMG began placing its royalty payments in escrow and notified Go that it considered the contract terminated in view of the district court’s decision in the case with C.R. Bard. Go then terminated the contract and demanded that MMG cease using the “O’Neil” trademark. MMG refused, although it later changed the labeling of its catheters to “Rüsçh/MMG” three years after selling its assets to Rüsçh in February 2000. Go sued MMG and Rüsçh in February 2001, alleging patent infringement, breach of contract, tortious interference with contract, conspiracy to breach fiduciary duty, trademark infringement, and unfair competition.

The district court granted SJ to MMG and Rüsçh, finding the ’259 patent infringed but invalid as anticipated. The parties had agreed that a 1982 article by Dr. O’Neil anticipated the ’259 patent unless Go could establish a 1979 priority date. The district court found that Go was not able to claim priority to the parent application because it did not satisfy the written description or best mode requirements of 35 U.S.C. § 112. The district court granted SJ in favor of Go on the inequitable conduct issue, finding a lack of evidence to support a finding of a material misrepresentation.

The case then went to trial in February 2004, where the district court granted JMOL disposing of Go's claims of breach of fiduciary duty and tortious interference with contract. The jury returned a verdict against MMG for breach of contract and trademark infringement and awarded damages based on a reasonable royalty and unjust enrichment, as well as punitive damages. The jury also found against Rüsçh for trademark infringement, awarding damages based on a reasonable royalty and unjust enrichment. Further, the district court granted Go's motion for a permanent injunction and prohibited both MMG and Rüsçh from using the "O'Neil" mark. But the district court denied Go's motion for prejudgment interest, finding that the contract claim was not a liquidated claim and, therefore, not eligible for prejudgment interest.

The district court later reduced the contract damages owed by MMG to preclude royalties after the date when the '259 patent was found invalid in the C.R. Bard litigation. It also reduced the trademark damages, reasoning that the jury's calculation was based on profits rather than actual damages. Specifically, the court found that Go's expert arbitrarily chose "a wholly speculative royalty rate." It further reduced the damages awarded to Go by setting aside the jury's award of lost profits, finding that the jury was punishing MMG for actions under breach of contract, which is prohibited by statute.

On appeal, the Federal Circuit: (1) affirmed the grant of SJ of patent invalidity; (2) affirmed the denial of prejudgment interest; (3) vacated and remanded for a recalculation of the contract damages; (4) affirmed the district court's adjustments of the jury awards under trademark infringement; and (5) affirmed the permanent injunction against MMG and Rüsçh.

First, the Federal Circuit concluded that the district court correctly granted SJ of patent invalidity. Specifically, the Court found that the absence of best mode support for the priority claim warranted the grant of SJ. The Court found that Dr. O'Neil subjectively considered a best mode (i.e., the sheath length limitation) via an admission during his deposition. The Court held that "the 1979 application lacked sufficient disclosure to allow others to practice the best mode." Slip op. at 10. Therefore, because the priority claim failed, the Court affirmed the SJ of patent invalidity based on the anticipatory 1982 article.

Second, the Federal Circuit affirmed the denial of prejudgment interest, applying Eleventh Circuit law. Specifically, the Court found that the royalties due under the license depended on the fact-finder's interpretation of the contract between the parties, which did not include a liquidated damages provision. Therefore, addition of prejudgment interest to these damages was not available.

Third, the Federal Circuit vacated and remanded the calculation of breach of contract damages because, under *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969), "a licensee [is] not estopped from challenging the validity of the licensor's patent" but "cannot invoke the protection of the *Lear* doctrine until it (i) actually ceases payment of royalties, and (ii) provides notice to the licensor that the reason for ceasing payment of royalties is because it has deemed the relevant claims to be invalid." Slip op. at 13-14. The Court held that the district court erred in applying the *Lear* doctrine to relieve MMG of its *entire* obligation to pay royalties after the finding of invalidity in the C.R. Bard litigation. The Court noted that the C.R. Bard case had no effect on the contract between Go and MMG, and that MMG's use of an escrow account was an implicit acknowledgment that Go was entitled to the royalty payments if the district court were reversed. Moreover, the Court noted that MMG did not inform Go of its reason for failing to pay royalties.

Fourth, the Federal Circuit affirmed the district court's adjustments of the jury award due to trademark infringement. Specifically, the Court agreed with the district court's observation that 15 U.S.C. § 1117 does not allow for a downward adjustment of actual damages for trademark infringement. The Court held that the jury's reasonable royalty award was not supported by substantial evidence of actual damages. The Court noted that the contract did not explicitly include a royalty rate for use of the "O'Neil" mark and that Go's expert arbitrarily found the trademark to contribute to 3% of MMG's profits. Therefore, the Federal Circuit held that the district court did have discretion to reduce the award based on MMG's profits rather than actual damages.

Further, the Federal Circuit noted that 15 U.S.C. § 1117 gives district courts "broad latitude to adjust" the award of profits. *Id.* at 16. The Court held that the district court pointed to equitable considerations weighing against the award of profits and also gave sufficient reasons to set aside the jury's award of punitive damages.

Lastly, the Federal Circuit found that substantial evidence supported the jury's findings that (1) the "O'Neil" mark had acquired secondary meaning, (2) the contract between Go and MMG included an implied trademark license, and (3) Go never abandoned the mark. Therefore, the Court found the permanent injunction to be the appropriate remedy.

"The district court erred in applying the *Lear* doctrine to relieve [licensee] of the obligation to pay any royalties after the finding of patent invalidity during [patentee's] litigation against [a third party]." Slip op. at 14.

Abbreviations | Acronyms

ALJ	Administrative Law Judge	IDS	Information Disclosure Statement
ANDA	Abbreviated New Drug Application	IP	Intellectual Property
APA	Administrative Procedures Act	ITC	International Trade Commission
APJ	Administrative Patent Judge	JMOL	Judgment as a Matter of Law
Board	Board of Patent Appeals and Interferences	MPEP	Manual of Patent Examining Procedure
Commissioner	Commissioner of Patents and Trademarks	PCT	Patent Cooperation Treaty
CIP	Continuation-in-Part	PTO	United States Patent and Trademark Office
DJ	Declaratory Judgment	SEC	Securities and Exchange Commission
DOE	Doctrine of Equivalents	SJ	Summary Judgment
FDA	Food & Drug Administration	SM	Special Master

Looking Ahead

- After considering briefs by the parties, amicus, and the Solicitor General on behalf of the United States, the Supreme Court granted the petition for certiorari in *Microsoft Corp. v. AT & T Corp.*, 05-1056, on October 27, 2006. The issues presented in this case are (1) whether digital software code may be considered a “component[] of a patented invention” within the meaning of 35 U.S.C. § 271(f)(1); and, if so, (2) whether copies of such component made in a foreign country are “supplie[d] . . . from the U.S.” We await briefing on the merits, with petitioner’s brief due December 15, 2006, and scheduling of oral argument.

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Last Month at the Federal Circuit



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