

Last Month at the Federal Circuit

May 2008

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- In *Litecubes, LLC v. Northern Light Products, Inc.*, No. 06-1646 (Fed. Cir. Apr. 28, 2008), the Federal Circuit affirmed the district court’s denial of Northern Light Products, Inc.’s (“GlowProducts”) motion to dismiss for lack of subject matter jurisdiction. GlowProducts argued that there was no subject matter jurisdiction because Litecubes, LLC failed to prove that GlowProducts sold or offered to sell products in the United States. The Federal Circuit rejected this argument and held that a plaintiff must prove that allegedly infringing activity took place in the United States to prevail on claims of patent or copyright infringement, but failure to do so does not divest the federal courts of subject matter jurisdiction. See the full summary below.
- In *Samsung Electronics Co. v. Rambus, Inc.*, No. 06-1579 (Fed. Cir. Apr. 29, 2008), the Federal Circuit held that because Rambus, Inc. offered to pay Samsung Electronics Company, Ltd.’s attorney fees, the district court’s order denying Samsung’s motion for attorney fees, but entering findings with respect to the spoliation of evidence, was issued without jurisdiction. The Court noted that 35 U.S.C. § 285 does not authorize the imposition of two separate sanctions: the finding of exceptionality and the award of attorney fees. It explained that to the contrary, section 285 authorizes the award of attorney fees in exceptional cases and that exceptionality is only an element for the award, not a separate sanction. See the full summary below.

An Article III Controversy Exists Where a Patent Holder Unilaterally Grants a Covenant Not to Sue to a Subsequent ANDA Filer and the Covenant Potentially Delays That Filer’s Market Entry

Sean A. O’Donnell

Judges: Gajarsa (author), Friedman (dissenting), Prost

[Appealed from E.D. Mich., Chief Judge Friedman]

In *Caraco Pharmaceutical Laboratories, Ltd. v. Forest Laboratories, Inc.*, No. 07-1404 (Fed. Cir. Apr. 1, 2008), the Federal Circuit reversed the district court’s dismissal for lack of Article III jurisdiction Caraco Pharmaceutical Laboratories, Ltd.’s (“Caraco”) DJ action, holding that an Article III controversy still existed between the parties despite Forest Laboratories, Inc.’s (“Forest”) unilateral grant to Caraco of a covenant not to sue for patent infringement.

Under the Hatch-Waxman Act, a pharmaceutical drug company intending to market a new drug must submit a New Drug Application (“NDA”) and provide a list of patents covering the drug. The

FDA then lists this information in the “Orange Book.” Drug companies seeking to market a generic version of any listed drug must submit to the FDA an ANDA, along with at least one certification. One such certification is a “Paragraph IV,” which certifies that the listed patent is invalid or will not be infringed by the manufacture, use, or sale of the new drug. Filing a Paragraph IV constitutes patent infringement under the Act.

The first Paragraph IV ANDA filer receives a 180-day period of market exclusivity, wherein the FDA cannot approve any other ANDA covering the listed drug. An ANDA filer can start tolling of this period either by (1) initiating commercial marketing of its drug, or (2) obtaining a final judgment of noninfringement or invalidity of the Orange-Book-listed patents. Subsequent ANDA filers can also trigger tolling and thereby speed their own market entry, but only under the second option. Furthermore, NDA holders must commence suit against the ANDA filer within forty-five days. If not, the ANDA filer can sue for a DJ that the relevant Orange-Book-listed patents are invalid or not infringed.

Forest owns two patents, U.S. Patent Nos. Re. 34,712 (“the ’712 patent”) and 6,916,941 (“the ’941 patent”), listed in the Orange Book as covering escitalopram, the active ingredient of its drug Lexapro®. The ’712 patent expires in 2012 and the ’941 patent expires in 2023. Ivax Pharmaceuticals, Inc. (“Ivax”) filed the first

Paragraph IV certification against Forest, certifying that both patents were invalid or not infringed. Forest sued Ivax for infringement of the '712 patent only, and Ivax counterclaimed for invalidity. Forest prevailed both at the district court and on appeal, thereby preventing Ivax from triggering its 180-day exclusivity period prior to the '712 patent's expiration in 2012.

“In claiming that it has been denied the right to sell non-infringing generic drugs, Caraco has alleged precisely the type of injury that the Declaratory Judgment Act is designed to remedy.” Slip op. at 23.

In May 2006, Caraco filed an ANDA for generic escitalopram that included a Paragraph IV certification for Forest's '712 and '941 patents covering Lexapro®. Forest sued Caraco for infringement of the '712 patent but not the '941 patent. Caraco filed a separate action for DJ that the '941 patent was invalid or not infringed by its generic product. Notably, Caraco could trigger Ivax's exclusivity period and thereby hasten its own market entry only by (1) obtaining a judgment that the '712 patent is invalid, or (2) prevailing in a suit that both the '712 and '941 patents are invalid or not infringed. Forest moved to dismiss Caraco's DJ action as failing to present an Article III “case” or “controversy,” arguing that no “reasonable apprehension of suit” existed.

Forest filed its motion to dismiss before the issuance of *Teva Pharmaceuticals USA, Inc. v. Novartis Pharmaceuticals Corp.*, 482 F.3d 1330 (Fed. Cir. 2007). Under *Novartis*, the Federal Circuit held that a court asked to dismiss a DJ action must make a determination under “all the circumstances.” Moreover, an Article III controversy exists when a patentee lists patents in the Orange Book, the ANDA applicant files its ANDA certifying the listed patents under Paragraph IV, and the patentee brings an action against the submitted ANDA on at least one listed patent. After *Novartis* issued, Forest unilaterally granted Caraco an irrevocable covenant not to sue for infringement of the '941 patent. Yet Forest refused to concede that the '941 patent was invalid or not infringed by Caraco's generic drug and hinged its entire

argument on the covenant not to sue. The district court agreed with Forest and dismissed the action, without applying the rule stated in *Novartis*.

On appeal, the Federal Circuit found that Caraco's DJ action satisfied the injury-in-fact, causation, and redressibility elements of standing. An injury-in-fact existed because Forest prevented the FDA from approving Caraco's ANDA, a prerequisite for market entry, and Caraco had a right to enter because its product was noninfringing. Caraco's injury was also fairly traceable to Forest. As noted before, the FDA could not approve Caraco's ANDA unless Caraco first obtained a judgment that both the '712 and '941 patents were invalid or not infringed. Therefore, Forest's listing of the '712 and '941 patents in the Orange Book as covering Lexapro® effectively created a barrier preventing the FDA from approving Caraco's ANDA. Finally, Caraco's injury-in-fact was redressible by a DJ that the '941 patent was not infringed. If Caraco obtained a favorable judgment that its generic drug did not infringe Forest's '941 patent, then it would only need a judgment of invalidity or noninfringement on Forest's '712 patent to trigger Ivax's exclusivity period and hasten its own market entry.

After determining that Caraco satisfied the Article III standing requirements, the Court held Caraco's action consistent with the basic purpose of the DJ Act. “In claiming that it has been denied the right to sell non-infringing generic drugs, Caraco has alleged precisely the type of injury that the Declaratory Judgment Act is designed to remedy.” Slip op. at 23. In addition, Forest's actions excluded Caraco from the market without ever subjecting Forest's '941 patent to a court determination of its scope or whether Caraco's ANDA infringes it. Furthermore, the Court also noted that Caraco's DJ action was consistent with the basic goal of the Hatch-Waxman Act.

The Court then held the action ripe for judicial review. According to the Court, Caraco had a complete ANDA already submitted to the FDA for approval, and no additional facts were needed to determine if the product infringed the '941 patent. Moreover, since Caraco's drug did not infringe the '941 patent, then delaying judicial consideration of Caraco's corresponding DJ action would also delay

possible approval of Caraco's ANDA. This barrier created a potential for lost profits and, accordingly, the Court held Caraco's action ripe for review.

Finally, the Court held that Caraco's case was not mooted by Forest's covenant not to sue. Under Hatch-Waxman, a drug company cannot enter the market without FDA approval, and an NDA holder's covenant not to sue does not affect this process. As noted previously, where the first ANDA filer fails to trigger its own exclusivity period, subsequent ANDA filers can only enter the market prior to expiration of the relevant Orange-Book-listed patents by obtaining a judgment that they are invalid or not infringed. In this case, Forest listed two patents for the drug, and Caraco could not trigger tolling of Ivax's exclusivity period absent a judgment on the merits that its product did not infringe both the '712 and '941 patents. Therefore, terminating the case without such a determination could delay this process and thereby exclude Caraco from the market. Accordingly, the Court held a controversy still existed between the parties regarding the '914 patent, despite the existence of a covenant not to sue. As a result, the Court overturned the district court case and remanded it for further proceedings.

In a dissenting opinion, Judge Friedman noted that the covenant not to sue precluded Forest from subjecting Caraco to damages for infringement of the '941 patent. Caraco's concern, Judge Friedman wrote, was not that it may be sued for infringement if it marketed its generic version of the patented drug, but that its market entry may be delayed. Caraco's argument that its market may be delayed, Judge Friedman said, "is highly speculative and conjectural, and involves uncertain legal issues that have not yet been resolved." Friedman Dissent at 3. Considering all the circumstances, Judge Friedman would find that there was not a "substantial controversy, . . . of sufficient immediacy and reality to warrant the issuance of a declaratory judgment," as required by *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. ___, 127 S. Ct. 764, 771 (2007). Friedman Dissent at 4.

Claims Not Indefinite Just Because Method Claims Included Structural Limitations, Apparatus Claims Included Functional Limitations, and a Term Was Used in Different Contexts in the Same Claim

Kenneth M. Motolenich-Salas

Judges: Newman, Gajarsa (author), Dyk

[Appealed from C.D. Cal., Chief Judge Stotler]

In *Microprocessor Enhancement Corp. v. Texas Instruments Inc.*, Nos. 07-1249, -1286 (Fed. Cir. Apr. 1, 2008), the Federal Circuit reversed the district court's grant of SJ of invalidity that all claims of U.S. Patent No. 5,471,593 ("the '593 patent") owned by Microprocessor Enhancement Corporation ("MEC") were indefinite, but affirmed its grant of SJ of noninfringement in favor of Texas Instruments Inc. ("TI") and Intel Corporation ("Intel").

The '593 patent is directed to methods for increasing microprocessor efficiency and pipelined processors, which operate like assembly lines, where the processor is subdivided into segments, each of which simultaneously completes its

respective task on a different instruction. MEC initially sued both TI and Intel for infringement of the '593 patent. The parties, however, concluded that Intel had been misjoined and stipulated to the dismissal of MEC's claims against Intel. MEC subsequently refiled its claims against Intel in a separate suit.

“Although this seeming preamble within a preamble structure is unconventional, its effect on the definiteness of claim 1 lacks the conclusiveness with which King Claudius's guilt is established by his reaction to Hamlet's play within a play.” Slip op. at 12.

In the TI case, the district court granted TI's motions for SJ of invalidity for indefiniteness and noninfringement. With respect to invalidity, the district court concluded that claim 1, a method claim, and claim 7, an apparatus claim, were indefinite in that the claims impermissibly mixed two distinct classes of patentable subject matter and that they were insolubly ambiguous for requiring that a "condition code" be interpreted differently in different portions of a claim. As for noninfringement, the district court's holding was based on its construction of the claim terms "pipeline stage" and "instruction execution pipeline stage." Given its invalidity and noninfringement holdings, the district court entered judgment in TI's favor.

At the time the district court entered judgment in the TI case, cross-motions for SJ were pending in the Intel case. Rather than wait for the district court to rule on the motions, MEC and Intel agreed to a stipulated dismissal in which MEC agreed that it would be collaterally estopped from challenging the TI case invalidity ruling and that the district court would apply the TI case claim construction, under which Intel's accused products did not infringe. As a result, the district court entered judgment in Intel's favor.

MEC appealed from the district court's judgment in both cases. On MEC's motion, the Federal Circuit consolidated the appeals.

The Court first addressed the parties dispute as to the scope of the record on appeal. Specifically, the parties disagreed as to whether the record included certain evidence submitted in the Intel case. The Federal Circuit noted that it did not need to decide this issue because its decision primarily rested on the intrinsic record of the '593 patent and any differences between the extrinsic record developed in the two cases did not contradict its reading of the intrinsic record.

The Federal Circuit then turned to the district court's grant of SJ of invalidity. It concluded that neither claim 1 nor claim 7 impermissibly claimed mixed classes of subject matter. The Court explained that a single patent may include claims directed to one or more of the classes of patentable subject matter, but no single claim may cover more

than one subject matter class. Examining claim 1, the Court noted that it had the following structure: "A method of executing instructions in a pipelined processor comprising: [structural limitations of the pipelined processor]; the method further comprising: [method steps implemented in the pipelined processor]." Slip op. at 12 (alterations in original). The Court stated that although the preamble within a preamble structure was unconventional, method claim preambles often recite the physical structures of a system in which the claimed method is practiced. Moreover, reasoning that direct infringement of claim 1 was clearly limited to practicing the claimed method in a pipelined processor possessing the requisite structure, the Court concluded that claim 1 did not impermissibly mix two distinct classes of patentable subject matter. Similarly, the Court concluded that claim 7 did not cover both an apparatus and a method of use of that apparatus. The Court emphasized that apparatus claims are not necessarily indefinite for using functional language. It noted that claim 7 was clearly limited to a pipelined processor possessing the recited structure and was capable of performing the recited functions, and was thus not indefinite.

The Court also concluded that neither claim 1 nor claim 7 was insolubly ambiguous in its use of the term "condition code." Both claims recited "at least one condition code" as an element of the pipelined processor. Thereafter, each claim referred to "the condition code" or "said condition code" five times. Examining the claims, the Court concluded that "condition code" meant either a storage unit or a value derived from the output of the storage unit depending on the context in which it is used, but that both claims were facially nonsensical if either of these definitions were used exclusively. Although the Court agreed with the district court's initial assumption that a single claim term should be construed consistently with its appearance in other places in the same claim, the Court stated that a patentee's mere use of a term with an antecedent does not require that both terms have the same meaning. The Court noted that "[a] claim that is amenable to construction is not invalid on the ground of indefiniteness' if the construction renders the claim definite." *Id.* at 15 (alteration in original) (quoting *Energizer Holdings, Inc. v. Int'l Trade Comm'n*, 435 F.3d 1366, 1371 (Fed. Cir. 2006)).

Since the term “condition code” as used in the claims was not surrounded by uniform language that required a single interpretation and the appropriate meaning was readily apparent from each occurrence in the text, the Court concluded that the use of “condition code” in different contexts did not render the claims indefinite.

Finally, the Federal Circuit turned to the district court’s grant of SJ of noninfringement. The Court noted that MEC admitted that the accused products would not infringe if the Court affirms either the construction of “pipeline stage” or “instruction execution pipeline stage.” Thus, because the Court affirmed the district court’s construction of “pipeline stage,” it noted that it did not need to address the construction of “instruction execution pipeline stage.” In so doing, the Court noted that the district court’s construction of “pipeline stage” was supported by MEC’s admissions, the structure and context of the term’s use in the claims, the prosecution history, and extrinsic evidence of how the term would be understood by a person of ordinary skill in the art. The Court then noted that the parties had agreed that the accused products did not practice any of the asserted claims under the district court’s construction of “pipeline stage,” and that accordingly, the district court correctly entered SJ of noninfringement.

District Court Erred by Declining to Construe “Only If” Claim Limitation Where Parties Disputed the Meaning of the Term

Yahsuan C. Chang

Judges: Lourie, Clevenger, Prost (author)

[Appealed from E.D. Tex., Judge Ward]

In *O2 Micro International Ltd. v. Beyond Innovation Technology Co.*, Nos. 07-1302, -1303, -1304 (Fed. Cir. Apr. 3, 2008), the Federal Circuit remanded the district court’s ruling on the issue of infringement because the district court’s failure to construe a term did not resolve the parties’ dispute regarding literal infringement. The Court also vacated the jury’s verdict because O2 Micro

International Limited (“O2 Micro”) could not prove that the added limitation to the claim language during prosecution was only tangential to the alleged equivalent and, thus, it was an error to allow the jury to consider infringement under the DOE.

O2 Micro asserted its U.S. Patent Nos. 6,259,615; 6,396,722; and 6,804,129 (the “asserted patents”) against Beyond Innovation Technology Company, Ltd. and FSP Group (collectively the “defendants”) relating to a converter circuit.

During prosecution, O2 Micro had to amend claim 1 to include an “only if” limitation to overcome an obviousness objection. During the *Markman* proceedings, the defendants argued that the district court should construe “only if,” but O2 Micro thought it was unnecessary because “only if” are two simple, plain English words. The district court agreed with O2 Micro. At trial, the parties disputed whether the accused devices satisfied the “only if” limitation both literally and under the DOE. After deliberations, the jury found that defendants had infringed under both theories. Defendants appealed.

On appeal, the Federal Circuit first addressed two issues regarding waiver. First, the Court found that the defendants had not waived a challenge to the construction of “only if” by failing to object to the jury instructions, because in the Fifth Circuit it is not necessary to object to the jury instruction when the issue was fully litigated and decided at the *Markman* stage, and thus further objection would have been futile. Second, the Court found that the defendants had not waived their claim construction arguments by asserting a new construction on appeal. The Court concluded that the defendants simply employed new arguments to support their previously advocated construction of the term “only if,” so the defendants had not waived those arguments on appeal.

“A determination that a claim term ‘needs no construction’ or has the ‘plain and ordinary meaning’ may be inadequate when a term has more than one ‘ordinary’ meaning or when reliance on a term’s ‘ordinary’ meaning does not resolve the parties’ dispute.” Slip op. at 15.

The Court next considered defendants' argument that the district court's failure to construe the disputed claim term "only if" was a legal error that infected the literal infringement inquiry. The Court held that "[a] determination that a claim term 'needs no construction' or has the 'plain and ordinary meaning' may be inadequate when a term has more than one 'ordinary' meaning or when reliance on a term's 'ordinary' meaning does not resolve the parties' dispute." Slip op. at 15. Although the Court "recognize[d] that district courts are not (and should not be) required to construe *every* limitation present in a patent's asserted claims," the Court determined that "[w]hen the parties present a fundamental dispute regarding the scope of a claim term, it is the court's duty to resolve it." *Id.* at 17-18. Because the Court found that the district court was in the best position to determine the proper construction of the claim term in the first instance, the Court remanded for further proceedings.

Finally, the Court held that prosecution history estoppel prevented application of the DOE for the "only if" limitation. Because both parties agreed that the "only if" limitation was added to overcome a prior art rejection, the *Festo* presumption applied. The Federal Circuit further rejected O2 Micro's argument that the "only if" amendment was merely tangential to the alleged equivalent, noting that O2 Micro provided little explanation for the amendment in the prosecution history. The Court thus held that the district court erred in allowing the jury to consider infringement under the DOE.

Denial of Preliminary Injunction Affirmed Because Evidence Did Not Support That Prior Litigation Was a Sham

Anthony D. Del Monaco

Judges: Michel, Bryson, Kennelly (author, District Judge sitting by designation)

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

In *Judkins v. HT Window Fashion Corp.*, No. 07-1434 (Fed. Cir. Apr. 8, 2008), the Federal Circuit affirmed the district court's denial of appellant HT

Window Fashion Corporation's ("HT") request for a preliminary injunction because HT failed to demonstrate a likelihood of success on the merits. The Court also denied appellee Ren Judkins's ("Judkins") request for attorney fees.

Judkins developed a process for manufacturing window coverings in the early 1990s, commissioned his lawyer to draft a patent application in 1991, but did not file the application (U.S. Patent Application No. 08/412,875 ("the '875 application")) until 1995. In 1996, an inventor filed a patent application for a similar product that issued the following year as U.S. Patent No. 5,692,550 ("the '550 patent"). In early 1998, the assignee of the '550 patent, Newell Window Furnishings, Inc. ("Newell") filed a patent infringement suit asserting the '550 patent ("the Springs litigation"). During the Springs litigation, Judkins's invention was analyzed as prior art, and he and his attorney testified in the case. The trial court in the Springs litigation determined that the '550 patent was not anticipated by Judkins's invention because Judkins had suppressed, concealed, or abandoned the invention due to the four-year delay in filing the application. The district court, however, invalidated the '550 patent on other grounds.

Also in 1998, Judkins sought an interference between Newell's '550 patent and his own U.S. Patent Application No. 08/756,282 ("the '282 application"), which was a continuation of his '875 application. In 2001, the Board ruled that Judkins had abandoned his invention and awarded priority against him. At that point, both Judkins and Newell were in a difficult position, because the Board had ruled that Judkins had abandoned his invention and Newell had no valid patent because the Federal Circuit had affirmed the trial court's holding of invalidity. In response to the Board's ruling, Judkins filed a suit under 35 U.S.C. § 146 in the Western District of Pennsylvania seeking to overturn the Board's decision and seeking a

“When genuine adversaries reach a mutually agreeable compromise and present their agreement in detail to the court, and no fraud or other problems militate against the agreement’s enforcement, public as well as private interests are best served by giving effect to the settlement.”
Slip op. at 10.

determination that the invalidated '550 patent was derived from his invention.

Judkins and Newell entered into a settlement agreement, and Judkins requested that the district court vacate the Board's ruling that he had abandoned his invention. When the judge entered the Judkins-Newell proposed order, the district court found that Judkins did not suppress or conceal the invention and vacated the Board's determination. The Board responded by granting priority to Judkins's '282 application over the '550 patent. Subsequently, Judkins obtained U.S. Patent No. 7,182,120 ("the '120 patent"), derived from the '282 application.

Shortly before the '120 patent issued, Judkins had sent letters to HT's current and potential customers warning of likely infringement by HT's products. HT brought suit in the Central District of California to stop Judkins from sending the letters. Judkins countered by filing an infringement suit against HT in the Western District of Pennsylvania. The California case was consolidated in Pennsylvania. During this litigation, the district court denied HT's motion for a preliminary injunction, concluding that HT could not establish bad faith or overcome the presumption of the patent's validity by clear and convincing evidence. Thus, HT could not show the requisite likelihood of success on the merits.

On appeal, the Federal Circuit determined that the evidence relating to Judkins's conduct during the '120 patent's prosecution did not point unequivocally to bad faith. HT alleged that the bad acts consisted of a "sham" litigation concocted to overturn the Board's decision and that Judkins failed to disclose the abandonment finding in the Springs litigation to the Pennsylvania district court in connection with the settlement agreement. The Court disagreed with HT's assertion, concluding that Judkins's 2001 suit with Newell was obviously not a sham. The Court noted that the action was litigated for two years before it finally settled; Newell had moved to dismiss the case earlier in the litigation, which would have stuck Judkins with the Board's ruling; and that both parties took from the settlement something of value.

The Court reasoned that "[w]hen genuine adversaries reach a mutually agreeable compromise and present their agreement in detail to the court, and no fraud or other problems militate against the agreement's enforcement, public as well as private

interests are best served by giving effect to the settlement." Slip op. at 10. The Court further noted that Newell had disclosed the abandonment finding to the Pennsylvania district court when it moved to dismiss the 2001 suit.

In considering HT's argument that the district court improperly discounted the materiality of the Springs litigation, the Federal Circuit found that the district court balanced the "unfavorable" finding in the Springs litigation against its own earlier reversal of the Board's decision and merely concluded that the status of the '120 patent was open to reasonable debate. The Court could not conclude that this analysis amounted to clear error.

The Federal Circuit also rejected HT's argument that the district court improperly applied a presumption of validity to patents that were fraudulently acquired. The Court noted that "[a] patent procured through inequitable conduct is not invalidated thereby," although it may be held unenforceable on that basis 'as a matter of equitable principle.'" *Id.* at 12-13 (alteration in original) (quoting *Zenith Elecs. Corp. v. Exzec, Inc.*, 182 F.3d 1340, 1349 (Fed. Cir. 1999)). Therefore, because the possibility of inequitable conduct behind the '120 patent was not so clear-cut, the district court's reliance on the presumption of validity was not erroneous.

HT further argued that the district court erred in not using the "objective baselessness" standard for bad faith. The Court disagreed, noting that the district court used the proper standard and cited to the Federal Circuit's leading case linking bad faith to objective baselessness, *Globetrotter Software v. Elan Computer Group, Inc.*, 362 F.3d 1367, 1375, 1377 (Fed. Cir. 2004). The Federal Circuit noted that the district court, at several points in its opinion, indicated that Judkins's claims were not objectively baseless. Moreover, the Federal Circuit disagreed with HT's assertion that the district court failed to shift the burden to Judkins after HT established a prima facie case of intent to deceive. The Federal Circuit held that the district court did not abuse its discretion in declining to conclude that HT had established a prima facie case of inequitable conduct.

Finally, the Court rejected Judkins's argument that Judkins was entitled to attorney fees and costs because HT's appeal was frivolous. The Court stated that it will grant a motion for fees and costs

“only when an appeal is ‘clearly hopeless and unquestionably without any possible basis in fact or law.’” Slip op. at 17 (quoting *Chemical Eng’g Corp. v. Marlo*, 754 F.2d 331, 335 (Fed. Cir. 1984)). The Court noted that HT’s appeal from a denial of a preliminary injunction was reviewed for clear error, which meant that HT faced slim odds. The Court held, however, that “slim is not none” and that Judkins failed to show by reference to specific features of HT’s appeal that it was clearly hopeless.

CIP Was Not Entitled to Presumption That Claims Were Supported by Written Description in Parent Application

Judy W. Chung

Judges: Newman, Schall, Moore (author)

[Appealed from D.N.H., Judge Barbadoro]

In *PowerOasis, Inc. v. T-Mobile USA, Inc.*, No. 07-1265 (Fed. Cir. Apr. 11, 2008), the Federal Circuit affirmed the district court’s grant of SJ of invalidity with respect to all asserted claims in favor of T-Mobile USA, Inc. (“T-Mobile”), finding that the district court correctly concluded that none of the asserted claims of the two patents-in-suit were entitled to the benefit of the filing date of PowerOasis, Inc.’s and PowerOasis Networks, LLC’s (collectively “PowerOasis”) originally filed application because it did not provide a written description of the invention in the asserted claims.

The two PowerOasis patents-in-suit, U.S. Patent Nos. 6,466,658 (“the ’658 patent”) and 6,721,400 (“the ’400 patent”) stem from a chain of continuation and CIP applications, and are both directed to vending machines that sell telecommunications access. After the district court’s claim construction, T-Mobile filed a motion for SJ that the asserted claims were anticipated by the MobileStar Networks. PowerOasis responded by claiming its asserted claims should have the benefit of the filing date of the first application in the patent chain (“Original Application”), which would antedate the MobileStar Networks. On SJ, the district court determined that the asserted claims were not entitled to the priority date of the Original

Application because the written description of the Original Application did not support the later-issued claims. Because the district court concluded that the patents-in-suit were not entitled to the effective filing date of the Original Application, the district court held that the patents were anticipated by the MobileStar Networks.

On appeal, PowerOasis argued that the district court erred when it placed the burden of proof on PowerOasis to show its entitlement to the priority date of the Original Application. PowerOasis based its burden of proof argument mainly on the Federal Circuit’s

decision in *Ralston Purina Co. v. Far-Mar-Co, Inc.*, 772 F.2d 1570, 1573 (Fed. Cir. 1985), that a patent is presumed valid and “the burden of persuasion to the contrary is and remains on the party asserting invalidity.” Relying on *Ralston*, PowerOasis contended that the presumption of validity should include a presumption that claims in a CIP application are all entitled to the earliest effective filing date and that T-Mobile bore the burden of proof as to whether the asserted claims were entitled to the priority date of the original application.

The Federal Circuit disagreed with PowerOasis’s contention and distinguished *Ralston* based on two facts: (1) the CIP application at issue in *Ralston* had been the subject of an interference, which awarded the inventor the benefit of his earliest application; and (2) the prior art reference relied on by the defendant was brought to the attention of the examiner during prosecution. Therefore, the defendant in *Ralston* had to overcome the deference due to both the Board and the PTO. However, neither of the PowerOasis patents-in-suit had been the subject of an interference and the MobileStar Networks were never considered by the examiner. The Court found that in the absence of an interference or rejection, the PTO did not make priority determinations and, therefore, the validity presumption did not include an entitlement of priority date. The Court also found that while T-Mobile nevertheless bore the burden of proof of invalidity, T-Mobile met that burden by showing the MobileStar Networks to be an anticipating prior art.

“When neither the PTO nor the Board has previously considered priority, there is simply no reason to presume that claims in a CIP application are entitled to the effective filing date of an earlier filed application.”

Therefore, the Court found that the district court correctly placed the burden on PowerOasis to prove entitlement of priority date.

With respect to written description, the central issue before the Federal Circuit was whether the district court erred in its construction of the term “customer interface,” which was included either directly or indirectly in all of the asserted claims. The district court adopted PowerOasis’s proposed construction of “customer interface” to encompass an interface that is located on a customer’s laptop. The Federal Circuit agreed with the district court’s finding that the Original Application did not provide a written description of a “customer interface” as construed. The Court found that the Original Application described a vending machine with a “display” or “user interface” as part of the vending machine, rather than a vending machine with a “customer interface” located on a customer’s electronic device.

PowerOasis contended that for the purpose of validity analysis, the Court should adopt a broader construction of “customer interface” than the construction it proposed and was adopted by the district court. However, the Court found that the support for the broad construction was only found in the material added in the 2000 CIP application and, in fact, PowerOasis only cited to language first introduced in the 2000 CIP application to support its broad construction. Finally, PowerOasis provided an expert declaration stating that the Original Application disclosed to a person of ordinary skill in the art a customer interface located on a customer’s laptop. However, the Court found that the expert declaration, at best, demonstrated that it would be obvious to substitute a customer’s laptop with the user interface that was part of the vending machine, and that the expert declaration did not persuasively cite to any supporting references in the Original Application that demonstrated otherwise. The Court determined that the obviousness of the substitution did not show that PowerOasis was in possession of the invention of the asserted claims at the time of the filing date of the Original Application.

Phrase in Claim Preamble Did Not Limit Claims Because It Was Duplicative of Language in the Body of the Claims

Jenna M. Morrison

Judges: Gajarsa, Linn, Dyk (author)

[Appealed from E.D. Mich., Chief Judge Friedman]

In *Symantec Corp. v. Computer Associates International, Inc.*, Nos. 07-1201, -1239 (Fed. Cir. Apr. 11, 2008), the Federal Circuit overturned the district court’s finding of SJ, noting that the terms of the claim’s preamble did not function as a claim limitation.

Symantec Corporation (“Symantec”) owns U.S. Patent No. 5,319,776 (“the ’776 patent”), which concerns a method of scanning for and detecting computer viruses embedded in data files that are downloaded or copied from a remote server onto a computer. The previous owner of the ’776 patent asserted claims 1-20 against Computer Associates International, Inc. (“CA”) for the development and sale of numerous antivirus software products, and Richard Levin intervened, claiming to be a co-inventor of the ’776 patent. But the district court made a SJ finding of noninfringement following construction of the claim terms “a method of screening the data as it is being transferred,” “computer system,” and “destination storage medium.”

“[I]t is assumed that the preamble language is duplicative of the language found in the body of the claims or merely provides context for the claims, absent any indication to the contrary in the claims, the specification or the prosecution history.”
Slip op. at 9-10.

Symantec appealed the construction of those claim terms. Primarily, Symantec challenged the district

court's construction of the phrase "a method of screening the data as it is being transferred," found in the preamble of independent claim 1. The Federal Circuit found that it was clear that the claim phrase "as it is being transferred" was added to the preamble during prosecution to overcome the prior art at the same time that the phrase "prior to storage" was added to the body of the claim.

Nevertheless, the Court concluded that the prosecution history failed to demonstrate clear reliance on the preamble during prosecution to distinguish the claimed invention from the prior art. Instead, the Court found that the "as it is being transferred" language was merely duplicative of the "prior to storage" limitation that had been construed by the Federal Circuit in a prior appeal and, thus, did not deserve a narrower construction. The Court reasoned that "it is assumed that the preamble language is duplicative of the language found in the body of the claims or merely provides context for the claims, absent any indication to the contrary in the claims, the specification or the prosecution history." Slip op. at 9-10. Thus, the Court determined that the preamble phrase was not a separate limitation.

Next, Symantec challenged the district court's construction of the terms "computer" and "computer system." Although the district court construed those terms as limited to a single computer, the Federal Circuit found that the specification did not reveal any special definition for the terms, and the ordinary meaning of those terms supported a broader construction that would include a system of multiple, interconnected computers.

Symantec also appealed the district court's construction of the term "destination storage medium" as encompassing only a storage system residing within a stand-alone computer. The Federal Circuit found the district court's construction too narrow because once the term "computer system" was properly construed, there was no reason to limit "destination storage medium" to a computer hard drive. Instead, the term was broad enough to include floppy drives and thumb drives in addition to hard drives.

Next, Symantec challenged the district court's SJ of noninfringement by inducement. Symantec asserted that CA induces its customers to infringe the '776 patent by using its EAV products in

conjunction with a downloading program. Although Symantec did not offer direct evidence that a CA customer directly infringed the '776 patent, the Court agreed that Symantec offered circumstantial evidence of CA encouraging its customers to use the EAV products with a downloading product. Moreover, the Court noted that CA's customers could only use the EAV products in an infringing manner. Accordingly, the Court agreed that sufficient circumstantial evidence of direct infringement created an issue of material fact and remanded the issue to the district court.

Turning next to CA's cross-appeal, the Federal Circuit addressed the district court's grant of SJ that the doctrine of laches did not bar recovery for Symantec. Because CA prevailed on SJ of noninfringement at the district court, the Court pointed out that a determination in CA's favor on appeal on the issue of laches would not affect the grant of SJ. The Court thus dismissed the cross-appeal as improperly filed.

Nevertheless, the Court considered CA's arguments on laches as an alternative ground for sustaining the judgment of noninfringement. The Court noted that the previous owner of the '776 patent, Hilgraeve, sent a warning letter of possible infringement to Cheyenne Software ("Cheyenne"), the then owner of antivirus software called Inoculan. Subsequently, CA acquired Cheyenne and rebranded the Inoculan product as one of its EAV antivirus products. The Court noted that CA did not establish that the Inoculan product was the same or similar product to the accused products. Since laches would only apply if the accused products were the same or similar to the Inoculan product, the Court agreed with Symantec that the SJ barring the defense of laches was not in error.

The Federal Circuit also agreed with the district court's SJ finding that Levin had failed to establish a genuine issue of fact that he was a co-inventor of the '776 patent because of insufficient corroborating evidence. Here, Levin presented a declaration that he contributed to the conception of the '776 patent. In an attempt to corroborate that declaration, Levin provided co-inventor Gray's day planner, an entry of which discussed a telephone call taking place between Levin and Gray. Although Levin insisted that he gave the idea for the method of the '776 patent to Gray during that phone call, the Court disagreed, noting that the entry suggested that Gray and Levin discussed the state of the prior art.

In addition, the Court found that Gray's lack of technical expertise was irrelevant to the question of whether Levin was an inventor. Although Gray lacked technical expertise, there was no suggestion that the other co-inventors lacked technical expertise.

Next, the Court considered the SJ determination that Hilgraev, the then owner of the '776 patent, did not commit inequitable conduct to obtain the patent. CA relied on Gray's declaration where he discussed his qualifications in the field of computer communications software. CA asserted that Gray's recitation of his qualifications was false because he was a marketing person, not a software person having technical expertise. The Court disagreed because Gray did not describe himself as a software person having technical expertise. Instead, Gray described himself as a person "intimately familiar with the state of the art." Slip op. at 26. Since nothing in the record contradicted Gray's description, the Court did not find that the declaration was a misrepresentation.

Finally, the Court vacated and remanded the district court's SJ finding of noninvalidity because of the Court's constructions of the terms "computer," "computer system," and "destination storage medium." The Court noted that the same claim construction applies for validity determinations as for infringement determinations and sent the issue back to the district court for reconsideration in view of the proper claim construction.

Res Judicata Precluded Party from Bringing Trademark Cancellation Proceeding at TTAB After Default Judgment of Infringement Entered by District Court

Bart A. Gerstenblith

Judges: Newman (concurring), Gajarsa, Dyk (author)

[Appealed from TTAB]

In *Nasalok Coating Corp. v. Nylok Corp.*, No. 07-1432 (Fed. Cir. Apr. 14, 2008), the Federal Circuit affirmed a decision of the TTAB granting SJ

in favor of appellee Nylok Corporation ("Nylok") in a cancellation proceeding brought by Nasalok Coating Corporation ("Nasalok").

Both parties are engaged in business related to self-locking fasteners using nylon locking elements. A nylon element, such as a patch or strip of nylon, is applied to the threads of such a fastener, and prevents the fastener from loosening when exposed to vibration, stress, or temperature extremes. Nylok is the owner of federal trademark Registration No. 2,398,840 ("the '840 Registration"). The registered mark consists of "a patch of the color blue on a selected number of threads of an externally threaded fastener, with the blue patch extending more than 90 degrees and less than 360 degrees around the circumference of the fastener" and is designated for use on "metal externally threaded fasteners." Slip op. at 2.

When determining whether a defendant is precluded, however, "the somewhat different rules of 'defendant preclusion' apply." Slip op. at 6.

Nylok filed a complaint against Nasalok in the U.S. District Court for the Northern District of Illinois, alleging infringement of several trademarks, including the '840 Registration. Although properly served with the complaint, Nasalok failed to enter an appearance, and the district court entered a default judgment of trademark infringement in favor of Nylok and subsequently entered an injunction prohibiting Nasalok from "selling within or importing to the United States of America any self-locking fastener having a nylon locking element . . . having the color blue, or any color confusingly similar to the color blue," and from "promoting or advertising the color blue in the United States of America on or in association with any self-locking fastener, except when Nasalok has received express and written permission by Nylok." *Id.* at 2-3. The district court's order also stated that Nylok was the proper owner of the '840 Registration and that the trademark was valid and enforceable. Nasalok did not appeal the district court's order.

Five months after the default judgment, Nasalok filed a petition to cancel the '840 Registration with the Board, alleging that the mark was invalid for

various reasons. Nylok moved for SJ, arguing that Nasalok was barred under the doctrine of *res judicata* (claim preclusion) from claiming that the '840 Registration was invalid because it could have asserted, but did not assert, a claim of invalidity in the earlier infringement action brought by Nylok. Relying on the three-part test for claim preclusion set out in *Jet, Inc. v. Sewage Aeration Systems*, 223 F.3d 1360 (Fed. Cir. 2000), the Board granted SJ in favor of Nylok, finding that the doctrine of claim preclusion barred Nasalok's cancellation petition.

On appeal, the Federal Circuit rejected the Board's application of *Jet* because that three-part test for claim preclusion is the test to determine whether a plaintiff, who brings a second action related to a first action, is precluded. When determining whether a *defendant* is precluded, however, "the somewhat different rules of 'defendant preclusion' apply." Slip op. at 6 (citing 18 Charles Alan Wright, Arthur R. Miller & Edward H. Cooper, *Federal Practice and Procedure* § 4414 (2d ed. 2002)). Under those rules, a defendant is precluded only if "(1) the claim or defense asserted in the second action was a compulsory counterclaim that the defendant failed to assert in the first action, or (2) the claim or defense represents what is essentially a collateral attack on the first judgment." *Id.*

In addressing the first part of the test for defendant preclusion, the Federal Circuit began its analysis with Fed. R. Civ. P. 13(a)(1). The Federal Circuit noted that it has applied three tests to determine whether the "transaction or occurrence" test of Rule 13(a) is met: "(1) whether the legal and factual issues raised by the claim and counterclaim are largely the same; (2) whether substantially the same evidence supports or refutes both the claim and the counterclaim; and (3) whether there is a logical relationship between the claim and the counterclaim." *Id.* at 9.

Focusing on the particular facts in this case, Nylok's trademark infringement claim was based on Nylok's alleged ownership of a registered mark, Nasalok's alleged use of the color blue in nylon patches on the external threads of self-locking fasteners, its promotion of those fasteners in advertisements in publications distributed in the United States, and the likelihood of confusion of the consuming public as a result of Nasalok's activities. Invalidity of the mark was an affirmative defense that could have

been raised, although not part of Nylok's cause of action. Nasalok's cancellation petition, by contrast, was based on alleged attributes of Nylok's registered mark that rendered it subject to cancellation, including allegations that the mark was functional and was a phantom mark, and on Nylok's allegedly fraudulent actions in obtaining registration of the mark.

The Court thus concluded that, in this case, the "essential facts" alleged by Nylok in its infringement action related to Nylok's ownership of the mark and Nasalok's allegedly infringing behavior, and did not form the basis of the cancellation claim now asserted by Nasalok, which was based on attributes of Nylok's mark and on Nylok's actions in obtaining registration of that mark. Rather, the two claims raised different legal and factual issues, would not be supported or refuted by substantially the same evidence, and were not "logically related" in the sense described by *Moore v. New York Cotton Exchange*, 270 U.S. 593 (1926). Therefore, the Court concluded that the claims did not arise out of the same "transaction or occurrence," and Nasalok's petition to cancel was not a compulsory counterclaim in the infringement action.

The Court then noted that while it had not previously ruled on this specific issue, it had found that a determination of patent infringement in an infringement suit, or even an explicit determination of patent validity, does not preclude the assertion of an invalidity defense in a second action involving different products (i.e., products that are not "essentially the same"). Those decisions had necessarily assumed that an invalidity defense is not a compulsory counterclaim because in each of these cases a counterclaim of invalidity could have been asserted, and yet the Federal Circuit refused to find general preclusion of the invalidity defense.

Additionally, the Federal Circuit commented that the policy considerations in the patent context are equally applicable to the trademark context. A plaintiff, who brings a second infringement suit as to one allegedly infringing use of a mark, would not be precluded from bringing a second suit as to another use, nor would a defendant in such a situation be precluded from raising invalidity of the mark in the second action simply because it was not raised in the first.

Finally, the Court found that “treating challenges to trademark validity as compulsory counterclaims to infringement actions would violate the well-established policy of freely allowing challenges to the validity of claimed intellectual property protection,” as discussed in *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969). Although *Lear* dealt with patent licensee estoppel, several courts, including the CCPA, have applied the *Lear* balancing test to trademarks as well as patents, recognizing the public interest in ensuring trademark validity. Thus, the Court found that public policy also favored the determination that Nasalok’s petition to cancel was not a compulsory counterclaim in Nylok’s infringement action.

The Court then addressed the second basis for applying claim preclusion against defendants—where the effect of the later action is to collaterally attack the judgment of the first action. “When a former defendant attempts to undermine a previous judgment by asserting in a subsequent action a claim or defense that was or could have been asserted in the earlier case, the rules of defendant preclusion will apply.” Slip op. at 14.

Here, the district court enjoined Nasalok from selling or importing into the United States any self-locking fastener with a blue (or similarly colored) nylon locking element, and from promoting or advertising the color blue in connection with its self-locking fasteners. The Court found that permitting Nasalok to challenge the validity of the ’840 Registration would effectively undo the relief granted by the district court in the infringement action. Additionally, the Court rejected Nasalok’s argument that preclusion should not apply to default judgments. Where, as here, a default judgment satisfies due process requirements, and the defendant in the original action attempts to collaterally attack the default judgment, such attack is barred by claim preclusion.

The Federal Circuit noted that its holding is consistent with the rules followed by the Court in the patent context. In that context, a defendant to an infringement suit that results in a judgment of infringement is “precluded from challenging validity in a suit for infringement of any device that is the same as the [alleged infringing device in the first suit], because invalidity was a defense that was or could have been raised in the prior litigation.’ . . . In other words, preclusion is necessary to protect

the effect of the earlier judgment.” *Id.* at 15 (first alteration in original) (citations omitted). Thus, the Court affirmed the Board’s grant of SJ in favor of Nylok.

Judge Newman, concurring in the judgment, first chastised the majority for addressing the “irrelevant” question of whether Nasalok’s claim of invalidity was a compulsory counterclaim in the infringement action because validity of the mark was before the district court. Second, in following the Board’s analysis, Judge Newman would conclude that the issue of validity was decided in the district court, as evidenced by that court’s ruling that the trademark was valid and enforceable. Because the premises of a valid and enforceable mark, such as its distinctiveness and continuous use, were pleaded by Nylok, and as a party to the action, Nasalok did not dispute any of the pleadings, the issue is closed. Finally, Judge Newman criticized the majority’s public policy rationale based on *Lear*: “To state, even in dictum, that *Lear* favors a trademark system that facilitates attacks on trademark property ignores the differing public purposes of patents and trademarks, as well as misperceives the policy principles of *Lear*. Further, no aspect comparable to *Lear* is at issue in this case; the court’s discussion is inappropriate dictum.” Newman Concurrence at 3.

Minnesota Law Does Not Generally Allow an Arbitration Clause in a Licensing Agreement to Bind Successors to the Agreement

Matthew A. Levy

Judges: Mayer, Bryson, Fogel (author, District Judge sitting by designation)

[Appealed from E.D. Tex., Judge Folsom]

In *Datatreasury Corp. v. Wells Fargo & Co.*, No. 07-1317 (Fed. Cir. Apr. 16, 2008), the Federal Circuit affirmed the district court’s decision denying Wells Fargo & Company (“WFC”) and Wells Fargo Bank, N.A.’s (collectively “Wells Fargo”) motion to dismiss or stay litigation pending arbitration. The Federal Circuit held that under governing Minnesota law, the arbitration clause of the relevant

contract could not be enforced against nonsignatories.

“The cases do not support a conclusion that procedural terms of a licensing agreement unrelated to the actual use of the patent (e.g. an arbitration clause) are binding on a subsequent owner of the patent.” Slip op. at 8.

Datatresury Corporation (“Datatresury”) sued Wells Fargo for infringement of four patents, which had been assigned to Datatresury by WMR e-Pin LLC (“WMR”). One of the patents, U.S. Patent No. 5,265,007 (“the ’007 patent”), was the subject of an earlier patent license agreement (“PLA”) between WMR and a subsidiary of WFC. The PLA contained a covenant not to sue and an arbitration clause expressly covering the ’007 patent and “patent disclosures related thereto.” The PLA also stated that it was to be interpreted under Minnesota law.

Wells Fargo filed a motion to dismiss or, in the alternative, stay pending arbitration, arguing that the PLA prohibited Datatresury from bringing this action. The district court denied the motion. Applying Minnesota law, the district court concluded that Datatresury was not a party that could be bound by the PLA’s arbitration clause, either in its own right or as a “successor” of WMR. The district court also found that a plain reading of the PLA did not support Wells Fargo’s conclusion that the PLA encompassed all of the patents-in-suit. Wells Fargo appealed.

On appeal, the Federal Circuit noted that regional circuit law applies to contractual disputes, including disputes involving license agreements. It observed that in determining whether parties have agreed to arbitrate a particular dispute, courts in the Fifth Circuit consider: (1) whether a valid agreement between the parties exists, and (2) whether the dispute in question falls within the scope of that arbitration agreement. It noted that because in deciding whether there is a valid agreement between the parties, the Fifth Circuit applies state law, the question of arbitrability in the instant case turned on whether, under Minnesota law, there was a valid agreement to arbitrate between Wells Fargo and Datatresury.

The Court observed that under Minnesota law, a party is not bound by an arbitration clause unless it is a signatory to the underlying contract, and that a nonsignatory can enforce an arbitration clause in only limited circumstances, such as equitable estoppel, agency, and third-party beneficiary. The Court noted that none of those theories were asserted by Wells Fargo. Wells Fargo instead argued that the arbitration clause ran with the patent. The Court rejected this theory, however, noting that procedural terms of a licensing agreement unrelated to the actual use of the patent (e.g., an arbitration clause) are not binding on a subsequent owner of the patent. It concluded that because neither party in this case signed the PLA or participated in negotiating its terms, the dispute between them was not subject to the arbitration clause of the PLA. Accordingly, it affirmed the district court’s order denying Wells Fargo’s motion to dismiss or stay pending arbitration.

There Is No Need to Determine Whether There Are Noninfringing Uses to Establish an Implied License Where an Express License Authorizes the Infringing Uses

Jin Zhang

Judges: Newman, Lourie, Schall (author)

[Appealed from N.D. Ill., Senior Judge Hart]

In *Zenith Electronics Corp. v. PDI Communication Systems, Inc.*, Nos. 07-1288, -1321 (Fed. Cir. Apr. 16, 2008), the Federal Circuit affirmed the district court’s (1) grant of SJ of invalidity of claim 1 of U.S. Patent No. 5,495,301 (“the ’301 patent”); (2) grant of SJ of noninfringement of the ’301 patent; and (3) dismissal with prejudice of an inequitable conduct counterclaim with respect to certain claims of U.S. Patent No. 5,502,513 (“the ’513 patent”). The Court, however, vacated and remanded the district court’s (1) grant of SJ of invalidity of claim 1 of the ’513 patent; (2) grant of SJ of noninfringement of claim 1 of the ’513 patent; (3) dismissal without prejudice of an inequitable conduct counterclaim with respect to the ’301 patent and claim 1 of the ’513 patent; and (4) denial of motion for costs.

Zenith Electronics Corporation (“Zenith”) owns the ’301 and ’513 patents, which relate to televisions and wired remote control devices used in hospital rooms. The wired remote control devices include internal speakers by which television audio is delivered to the patient and, thus, are interchangeably referred to as “pillow speakers.” Three companies—Curbell Electronics (“Curbell”), MedTek, Inc. (“MedTek”), and Crest Electronics (“Crest”)—manufactured and distributed digital pillow speakers pursuant to licenses to the ’301 patent from Zenith. The pillow speakers were specifically designed to operate Zenith televisions.

“[W]e note that the public use itself need not be enabling. . . . Rather, we must simply determine whether the public use related to a device that embodied the invention.”

Slip op. at 11 (citation omitted).

PDI Communication Systems, Inc. (“PDI”) began marketing a new LCD television for use in the healthcare industry. PDI designed the television for compatibility with pillow speakers manufactured by

Curbell, MedTek, and Crest. As a result, Zenith filed a complaint against PDI, alleging infringement of the ’301 and ’513 patents. After close of discovery, both parties moved for SJ. The district court held that PDI was entitled to SJ that claim 1 of the ’301 patent and claim 1 of the ’513 patent were anticipated by the public use of a television (model no. “J20525”) manufactured by Radio Corporation of America (“RCA”) in combination with a pillow speaker (model no. “205-E”) manufactured by Curbell prior to the critical date; that PDI was entitled to SJ of noninfringement with respect to the ’301 patent due to the existence of an implied license; and that PDI was entitled to SJ of noninfringement with respect to the ’513 patent. The district court also dismissed without prejudice PDI’s counterclaim of inequitable conduct with respect to the ’301 patent and claim 1 of the ’513 patent as moot in light of its rulings on validity and infringement, and dismissed with prejudice PDI’s counterclaim of inequitable conduct with respect to claims 2-8 of the ’513 patent, finding that PDI made no attempt to demonstrate materiality with respect to the limitations of those claims. The district court also denied PDI’s motion for costs. Zenith appealed and PDI cross-appealed.

On appeal, the Federal Circuit first considered whether claim 1 of the ’301 patent was invalid as

anticipated by the public use of the RCA J20525 television in combination with the Curbell 205-E pillow speaker prior to the ’301 patent’s critical date. Zenith argued that the district court misconstrued the term “operating power” of claim 1 and that under the correct interpretation, the J20525/205-E combination did not meet the “operating power” limitation. The Federal Circuit disagreed, noting that claim 1 required that the invention’s multifunction control signal encoder receive “operating power” from the television receiver. The Court noted that the district court’s construction of “operating power”—an amount of power that is sufficient to enable the operation of the multifunction control signal encoder—was correct because nothing in the claims or written description suggested a departure from the term’s ordinary meaning, nor had Zenith pointed to anything contrary in the prosecution history. The Court therefore also agreed with the district court’s conclusion that the J20525/205-E combination anticipated the “operating power” limitation recited in claim 1 of the ’301 patent.

In addition, Zenith argued that PDI did not meet its burden of proving the elements of public use. Specifically, Zenith contended that PDI did not provide clear and convincing evidence (1) that the J20525 television and 205-E pillow speaker were used together prior to the critical date, (2) that the alleged use of the J20525/205-E was a public use, and (3) that the alleged use of the J20525/205-E was enabling. The Federal Circuit rejected each of these arguments. The Court found that there was no genuine issue of material fact with respect to whether the J20525 television and 205-E pillow speaker were publicly used together prior to the critical date. It noted that PDI presented expert testimony that was corroborated by testimony from other witnesses, documentary evidence, and Zenith’s own admissions. In addition, the Court explained that the “public use itself need not be enabling” and that the relevant question is whether the public use related to a device that embodied the invention. Slip op. at 11. The Court considered whether the J20525/205-E combination anticipated each limitation of claim 1 of the ’301 patent and found that it did. Accordingly, it concluded that the district court properly granted SJ that claim 1 of the ’301 patent was invalid as anticipated.

The Federal Circuit next considered the district court’s grant of SJ that the ’301 patent was not infringed due to the existence of an implied license.

The Court explained that the implied license defense is typically presented when a patentee or its licensee sells an article and the question is whether the sale carries with it a license to engage in conduct that would infringe the patent owner's rights. It noted that there are two requirements for the grant of an implied license: the products involved must have no noninfringing uses and the circumstances of the sale must plainly indicate that the grant of a license should be inferred. Here, however, noted the Court, the license was not merely implied by virtue of the sale of pillow speakers by Curbell, MedTek, and Crest. Instead, the implied license that customers obtained to use the pillow speakers according to the method of the '301 patent was derived from the express licenses between Zenith and those manufacturers. The Court held that it was clear from these express agreements between Zenith and those manufacturers that Zenith granted the manufacturers a license to make and sell any pillow speaker unit, the use of which would otherwise infringe the '301 patent. Thus, the Court concluded that there was no reason to determine whether there are noninfringing uses for the pillow speakers.

Zenith also argued that the implied license obtained by customers of the pillow speaker manufacturers extended only to their use of the pillow speakers in combination with Zenith televisions. The Federal Circuit disagreed. The Court noted that there was no such binding restrictions in the express licenses and, thus, the implied license extended to use of the pillow speakers in combination with any compatible television.

The Federal Circuit then turned to the '513 patent. First, the Court considered the district court's grant of SJ that claim 1 of the '513 patent was invalid as anticipated by the public use of the J20525 television prior to the critical date. The Federal Circuit noted that in reaching its conclusion, the district court focused solely on whether the J20525 television satisfied the "programmed to ignore" limitation of claim 1 and noted that it did not need to consider the other limitations because Zenith did not specifically point to any other element of claim 1. The Federal Circuit disagreed with this approach, noting that PDI provided no evidence whatsoever that the J20525 television satisfied the final two limitations of claim 1. Instead, with respect to those limitations, PDI merely argued that to the extent its product is considered to practice

them, then so did the RCA J20525 television. The Court explained that anticipation cannot be proved by merely establishing that one practices the prior art and that "mere proof that the prior art is identical, in all material respects, to an allegedly infringing product cannot constitute clear and convincing evidence of invalidity." *Id.* at 24. The Court noted that anticipation requires a showing that each element of the claim at issue, properly construed, is found in a single prior art reference. Here, noted the Court, there had been no such showing. Accordingly, the Court vacated the district court's grant of SJ that claim 1 of the '513 patent was invalid as anticipated by the J20525 television. In so doing, the Federal Circuit also noted that the district court, on remand, should consider the parties' respective arguments as to how the term "programmed to ignore" should be construed before considering the validity issue.

Next, the Federal Circuit considered infringement of claim 1 of the '513 patent. The Court noted that the district court stated that PDI is entitled to "a judgment declaring that . . . it ha[d] not infringed the '301 Patent or Claim 1 of the '513 Patent." *Id.* at 26 (first alteration in original). Despite this language, the Federal Circuit found that it appeared that the district court did not actually conclude that claim 1 of the '513 patent was not infringed. Instead, the Court noted that it seemed more likely that the district court intended to state that Zenith's allegation of infringement with respect to claim 1 of the '513 patent was dismissed in light of the ruling that claim 1 was invalid. Moreover, the Court found that PDI's implied license defense was inapplicable under the '513 patent for two reasons. First, the Court observed that the express license agreements between Zenith and the pillow speaker manufacturers did not extend to the '513 patent. Second, the Court observed that because the '513 patent is directed solely to the television side of the television/pillow speaker interface, the mere sale of pillow speakers did not imply a license for their use with televisions that have the additional features claimed in the '513 patent. Accordingly, the Federal Circuit vacated the district court's grant of SJ that claim 1 of the '513 patent was not infringed.

The Federal Circuit then turned to the issues of inequitable conduct. The Court agreed with PDI's argument that PDI's inequitable conduct counterclaim did not become moot simply because

asserted claims of Zenith’s patents were found invalid and/or not infringed. The Court therefore reinstated PDI’s counterclaim of inequitable conduct with respect to claim 1 of the ’301 patent and claim 1 of the ’513 patent. However, the Court held that PDI was precluded from seeking to prove inequitable conduct with respect to claims 2-8 of the ’513 patent because PDI failed to introduce evidence that the J20525 television was material to the limitations recited in claims 2-8 of the ’513 patent. The Court noted that PDI remained free to pursue inequitable conduct with respect to claim 1 of the ’513 patent, which, if established, would additionally render claims 2-8 unenforceable.

Finally, PDI argued that the district court improperly denied its motion for costs without explanation. The Federal Circuit found that it was in no position to opine on whether PDI should ultimately be deemed the prevailing party for purposes of recovering costs, given that it had vacated a number of the district court’s rulings. The Court agreed with PDI, however, that the district court should have provided some explanation of its decision regarding costs. Accordingly, the Court vacated the district court’s denial of PDI’s motion for costs; stated that PDI may again move for costs, if appropriate, following the district court’s resolution of the remaining issues on remand; and that the district court’s conclusion on that issue should be accompanied by an explanation.

Claims Are Indefinite Where the Corresponding Structure for a Means-Plus-Function Claim Merely Recites “Software”

Jason W. Melvin

Judges: Michel, Rader (author), Moore

[Appealed from E.D. Tex., Judge Clark]

In *Finisar Corp. v. DirecTV Group, Inc.*, Nos. 07-1023, -1024 (Fed. Cir. Apr. 18, 2008), the Federal Circuit reversed the district court’s construction of one claim term, and therefore vacated the verdict of infringement, reversed the denial of anticipation as to one claim, and remanded for a new trial on infringement and invalidity of the remaining claims.

Finisar Corporation (“Finisar”) sued The DirecTV Group, Inc. and a number of related companies (collectively “DirecTV”), alleging infringement of U.S. Patent No. 5,404,505 (“the ’505 patent”). The ’505 patent claims systems and methods for broadcasting information from databases to subscribers. Rather than waiting for a subscriber’s request, the claimed system determines the most popular requests and sends those programs to users at regular intervals. By arranging the database into a hierarchy of tiers according to popularity, the system may broadcast the more popular tiers with greater frequency than less popular tiers to maintain a user’s copy of the most likely accessed information as current as possible.

DirecTV has offered direct-to-home satellite television service since 1994. The DirecTV system provides content of several general types: turnaround programming, which essentially matches the broadcast from an existing television channel; playback programming, to allow pay-per-view movies and other on-demand shows; conditional access information, which allows subscribers to pay for and receive certain programs; and program guide information, which provides information about current and future programs on the various channels.

“[T]he patent must disclose, at least to the satisfaction of one of ordinary skill in the art, enough of an algorithm to provide the necessary structure under § 112, ¶ 6. . . . Simply reciting ‘software’ without providing some detail about the means to accomplish the function is not enough.” Slip op. at 29 (citation omitted).

Finisar sued DirecTV, alleging infringement of fifteen claims from the ’505 patent. The district court granted SJ to DirecTV that seven of those claims were invalid for indefiniteness. After Finisar dropped one additional claim from the case, the parties went to trial, where a jury found that DirecTV willfully infringed the remaining seven claims, directly and by inducement and contribution. The jury found damages of \$78.9 million as a reasonable royalty. The district court reversed the findings of induced and contributory infringement, and also denied Finisar’s request for an injunction. The court instead granted DirecTV a compulsory license at \$1.60 per set-top box, and enhanced damages by \$25 million.

On appeal, DirecTV challenged the district court’s construction of two claim terms, “information database” and “downloading into a memory storage device,” and the jury’s findings of infringement, no invalidity, and willfulness. Finisar cross-appealed the district court’s denial of a permanent injunction, imposition of the compulsory license, and grant of SJ of invalidity on certain claims.

As to the first term on appeal, “information database,” the Federal Circuit found that the term should be narrowly construed to require “searchability and retrievability beyond mere accessibility,” because “[the] claim term repeatedly appears within a framework that requires referencing, embedding, assigning, and transmitting portions of the database.” Slip op. at 9. Further looking to the specification, the Federal Circuit recognized a consistent description of the database that required some search and retrieval capabilities.

As to the second term on appeal, “downloading into a memory storage device,” the Federal Circuit found that the claimed downloading step requires storage of the downloaded data for later retrieval. First, the Court gave meaning to the claim language itself, which calls for a “memory storage device.” That language demonstrated to the Court that the downloading step requires retention of the downloaded data. The Federal Circuit also found support for a narrow construction in the specification. As the invention purports to provide an alternate to CDs or paper publications, both entail preservation and retention of the data. Now armed with a correct understanding of the appealed claim terms, the Federal Circuit turned to the question of literal infringement. With regard to the claim term “information database,” the Federal Circuit found that its reversal of the district court’s construction had no discernible effect on the jury’s verdict and was thus harmless error. The Court, however, reached a different conclusion with respect to the second term. It recognized the four types of programming sent by DirecTV and that DirecTV subscribers may have different types of set-top boxes. Because the record and briefs on appeal provided insufficient information for the Court to sort out the various possibilities, it remanded the question of infringement under the proper construction to the district court.

As to the final issue with regard to infringement, the Federal Circuit rejected DirecTV’s argument that

claim 16 requires scheduling of all information transmitted to the user—something DirecTV only performs for about 3% of its content. The Court relied on the open-ended nature of the “comprising” claim transition and refused to limit the claim as DirecTV argued.

Next, the Court turned to invalidity. First addressing anticipation, the Federal Circuit focused on the requirement that an anticipating reference arrange the claimed elements in the same way as the ’505 patent. After the jury’s verdict of no anticipation, the question facing the Court became whether or not a reasonable jury could have understood the asserted reference to disclose something other than the claimed subject matter. The reference, a textbook titled *The Architecture of Videotex Systems*, disclosed scheduling of transmissions, but Finisar had argued that it fails to disclose scheduling to two different groups of transmissions.

The Federal Circuit disagreed, imputing to the jury a full understanding of grammatical rules. It concluded that a reasonable jury would understand the reference to disclose transmitting multiple subgroups of information on different schedules, as claim 16 requires. The Court found further support in figures of the reference. Because Finisar had not argued that the reference lacked any other limitation from claim 16, the Court reversed the district court’s denial of JMOL, therefore granting DirecTV’s motion for invalidity of claim 16.

Although holding claim 16 invalid, the Court found DirecTV’s anticipating arguments regarding the other claims on appeal insufficient. Specifically, because DirecTV only presented the Court with a table correlating claim steps to pages in the prior art reference, the Federal Circuit concluded that DirecTV had failed to provide sufficient analysis. Because the information presented, in combination with the Court’s analysis of claim 16, did suggest the possibility that the other claims are invalid, the Court remanded the issue for the district court to determine invalidity under the correct analysis. The Federal Circuit additionally remanded the issue of obviousness for the district court to consider in light of a correct understanding of the prior art reference, as discussed by the Court with respect to anticipation of claim 16.

Addressing the issue of willfulness, the Federal Circuit instructed the district court that a competent opinion of counsel on either the issue of noninfringement or on invalidity would sufficiently protect an infringer from willfulness. The Court further applied judicial estoppel to prevent Finisar from arguing that DirecTV knew of the '505 patent in 1997, much earlier than admitted. Because Finisar defeated DirecTV's laches defense by arguing that Finisar should not have known of its claim against DirecTV until 2003, the Court refused to allow a contrary argument with respect to willfulness.

Finally, the Federal Circuit addressed Finisar's cross-appeal. Because challenges to the denial of injunction and grant of compulsory license were moot in light of the remand, the Court only addressed Finisar's challenge of the district court's holding that seven of the asserted claims are invalid as indefinite.

The claims at issue all involve means-plus-function limitations under § 112, ¶ 6. The Court found that the only purported structure disclosed in the specification was software that performs the recited function in the claim, but no description of the algorithm used. The Court cited the rule from *WMS Gaming, Inc. v. International Game Technology*, 184 F.3d 1339, 1349 (Fed. Cir. 1999), that "the disclosed structure is not the general purpose computer, but rather the special purpose computer programmed to perform the disclosed algorithm." Slip op. at 29. Thus, the Federal Circuit noted, "the patent must disclose, at least to the satisfaction of one of ordinary skill in the art, enough of an algorithm to provide the necessary structure under § 112, ¶ 6." *Id.* The Court concluded that "the district court correctly determined that the structure recited in the '505 specification does not even meet the minimal disclosure necessary to make the claims definite. Simply reciting 'software' without providing some detail about the means to accomplish the function is not enough." *Id.*

Rewriting Dependent Claims into Independent Form Resulted in a Narrowing Amendment Leading to Prosecution History Estoppel and a Bar to DOE

Christopher Y. Chan

Judges: Newman (dissenting), Rader (author), Dyk

[Appealed from D. Del., Judge Sleet]

In *Honeywell International, Inc. v. Hamilton Sundstrand Corp.*, No. 06-1602 (Fed. Cir. Apr. 18, 2008), the Federal Circuit affirmed the district court's judgment that the patentee was barred from asserting DOE. The Court held that the patentee could not show that the alleged equivalent was unforeseeable at the time of the narrowing amendment or that the narrowing amendment bore no more than a tangential relation to the alleged equivalent.

Honeywell International, Inc. and Honeywell Intellectual Properties, Inc. (collectively "Honeywell") brought suit against Hamilton Sundstrand Corporation ("Sundstrand") for infringement of certain claims of U.S. Patent Nos. 4,380,893 and 4,428,194. These patents claim technology to control airflow surge in auxiliary power units ("APUs"). An APU is a gas turbine engine that generates electricity for an aircraft and includes a load compressor to supply compressed air for starting the aircraft's main engines and for controlling the cabin's environment during flight. APUs must be able to control against surges in flight. Honeywell's patents claim a more efficient APU surge control system utilizing

"[W]hen Honeywell rewrote the application dependent claims into independent form, it 'effectively add[ed] the [IGV] limitation to the claimed invention.' . . . Because the alleged equivalent focuses on the IGV limitation, the amendment bore a direct, not merely tangential, relation to the equivalent." Slip op. at 20 (alterations in original) (citation omitted).

adjustable inlet guide vanes (“IGVs”). During prosecution, the independent claims had no reference to IGVs for use in surge control systems. The independent claims were cancelled in light of prior art and the dependent claims that recited IGVs were rewritten into independent claims. Sundstrand manufactures an APU device with a surge control system that overcomes a phenomenon at high flow levels known as the double solution problem by using, in part, IGVs.

A jury found that Sundstrand infringed the Honeywell patents under DOE and awarded damages to Honeywell. The district court denied Sundstrand’s motions for JMOL and a new trial. Both parties appealed. The Federal Circuit held that Honeywell’s act of rewriting dependent claims into independent form coupled with the cancellation of the original independent claims created a presumption of prosecution history estoppel. The Court vacated and remanded for a determination of whether Honeywell could rebut the presumption. On remand, the district court held a two-day bench trial to determine whether prosecution history estoppel barred Honeywell from asserting DOE. The district court held that Honeywell could not rebut the presumption of surrender by demonstrating that the alleged equivalent was not foreseeable at the time of the narrowing amendment or that the rationale underlying the narrowing amendment bore more than a tangential relation to the equivalent in question. Honeywell appealed from these two determinations and from the district court’s rulings with respect to whether damages should be limited and whether the evidence was sufficient to support the jury’s infringement verdict.

On appeal, the Federal Circuit agreed with the district court’s interpretation that the narrow equivalent proposed by Honeywell was foreseeable and, thus, precluded by estoppel principles. The Court reiterated that the goal of the principle of foreseeability is to “ensure that the claims continue to define patent scope in all foreseeable circumstances, while protecting patent owners against insubstantial variations from [the] claimed element in unforeseeable circumstances.” Slip op. at 13. In evaluating whether Honeywell could overcome the presumption of surrender, the Court assumed that Honeywell’s proposed articulation of the equivalent element was correct. The Court examined whether the use of IGV position to detect flow was later-developed technology and, thus, unforeseeable at the time of the amendments. The Court noted that foreseeability only requires that

one of ordinary skill in the art would have reasonably foreseen the proposed equivalent at the pertinent time.

The Court found that Sundstrand developed its equivalent well after Honeywell’s amendments, but stated that the mere temporal relationship of the equivalent to the patent acquisition and amendment process did not make the equivalent unforeseeable. The Court commented that the evidence suggested that the IGV solution may have been foreseeable. The Court acknowledged Honeywell’s contention that during the relevant time frame, surge control systems did not use IGV position to ascertain the existence of flows for surge control. However, the Court found that it was known that the control of surge was important, that systems had been developed for that purpose, and that IGVs were routinely used in surge control systems and affected the air flow rate. The Court observed that the record supported the district court’s finding that a person of ordinary skill in the art would have known of the use of IGV position to distinguish between flows to resolve the double solution problem. It concluded that Honeywell could have foreseen and included the alleged equivalent in the claims when they were amended. Accordingly, it agreed with the district court that Honeywell did not rebut the presumption of surrender with evidence of unforeseeability.

The Court also rejected Honeywell’s procedural challenges to the district court’s foreseeability conclusion, finding no fatal error in the district court’s refusal to estop Sundstrand from reversing its prior position that its accused product and its particular use of IGV position was unique (and perhaps unforeseeable). The Court stated that judicial estoppel only applies when the party had been successful and had prevailed based on the former position. Here, noted the Court, the record did not link Sundstrand’s success on any issues based on its former position. In sum, the Court found no error in the district court’s foreseeability conclusion.

On the tangential relation prong, the Court found that Honeywell was not able to rebut the presumption that the patentee’s objectively apparent reason for the narrowing amendment bore more than a tangential relation to the equivalent in question. In so finding, the Court noted that the tangential relation criterion for overcoming the *Festo* presumption is very narrow and focuses on the “patentee’s objectively apparent reason for the

narrowing amendment.” *Id.* at 18 (quoting *Cross Med. Prods., Inc. v. Medtronic Sofamor Danek, Inc.*, 480 F.3d 1335, 1369 (Fed. Cir. 2007)). It explained that to rebut the estoppel presumption with tangentiality, a patentee must show that the narrowing amendment was peripheral, or not directly relevant, to the alleged equivalent. The Court looked to the context around the examiner’s statement that the dependent claims would be allowed if rewritten into independent form. It noted that the original independent claims were rejected as obvious in light of the prior art and that the dependent claims were then rewritten into independent form and incorporated the limitations of the rejected independent claims. Thus, the Court found the key to the tangential relation inquiry was the content of the original dependent claims, which included the IGV limitation. Accordingly, the Court found that the IGV limitation was added to the claimed invention and that because the alleged equivalent focused on the IGV limitation, the amendment “bore a direct, not merely tangential, relation to the equivalent.” *Id.* at 20. Therefore, the Court concluded that tangentiality did not help Honeywell to overcome the presumption of surrender.

Finally, because Honeywell was not able to rebut the prosecution history estoppel presumption, the Court dismissed as moot Honeywell’s challenges to the district court’s ruling with respect to whether damages should be limited and whether the evidence was sufficient to support the jury’s infringement verdict.

Judge Newman dissented. She disagreed with the application of the “new presumption of surrender to all equivalents of the claim elements and limitations that originated in dependent claims that were never amended and that were not the subject of prosecution history estoppel.” Newman Dissent at 1. On the issue of foreseeability, she stated that while the prior art showed that the problem was not new, recognition of the problem did not render the solution foreseeable if the solution was discovered a decade later. According to her, presenting claims of varying scope is not a narrowing amendment or argument and that the PTO encourages use of dependent claims through lower fees because it facilitates examination. This protocol, she noted, has no relevance to whether a claim element is amended or narrowed or argued during prosecution, and should not be deemed to raise the *Festo* presumption.

Regarding the tangential relation factor, Judge Newman stated that there was no indication in the prosecution history of any relationship between Honeywell’s cancellation of the independent claim and the alleged equivalent of Sundstrand’s apparatus or method. She explained that the tangential criterion related to why an accused amendment was made, and it did not become irrebuttable simply when the accused equivalent concerned the same element that was added by amendment. She stated that the question was “whether the subject matter of the accused equivalent was relinquished by the patentee during prosecution” and felt that it should be answered on its facts, not by converting it into a complete bar. *Id.* at 11.

A Patentee’s Communications with Another’s Customers Were Not Objectively Baseless Where the Patentee Was Successful in Infringement Litigation

Aaron J. Capron

Judges: Michel, Dyk, Kennelly (author, District Judge sitting by designation)

[Appealed from N.D. Cal., Judge Fogel]

In *Dominant Semiconductors Sdn. Bhd. v. OSRAM GmbH*, No. 07-1456 (Fed. Cir. Apr. 23, 2008), the Federal Circuit affirmed the district court’s grant of SJ in favor of OSRAM GmbH (“OSRAM”) on Dominant Semiconductors Sdn. Bhd.’s (“Dominant”) claims for unfair competition, intentional interference with contractual relations, interference with prospective economic advantage, and trade libel arising from OSRAM’s communications to its customers that Dominant infringed several of its patents. The Court held that the district court correctly determined that OSRAM’s communications were not objectively baseless.

OSRAM and Dominant are manufacturers of light-emitting diodes (“LEDs”). OSRAM’s outside patent counsel wrote an opinion letter stating that several of Dominant’s LED products infringed nine OSRAM patents, including three particle size patents and four lead frame patents. OSRAM e-mailed the opinion letter to the company’s “Colleagues, Sales and Distribution Partners” informing them that it was sending the “official

statement of the OSRAM’s patent counsel concerning ‘DOMINANT’ products” and suggesting that the recipients might wish to show the letter to their customers. The e-mail also stated that OSRAM had “the possibility . . . to stop the import, sale and use of the related ‘DOMINANT’ products”

Later, OSRAM sued Dominant in the ITC alleging that Dominant’s LED products infringed ten OSRAM patents, seven of which had been listed in the opinion letter. After the filing, OSRAM issued two press releases, which announced that it had filed the complaint and was seeking injunctive relief, and that one of its American distributors had promised that it would not import or market any LEDs that infringe OSRAM’s patent rights. Following a trial, the ALJ assigned to the ITC action issued an initial determination finding that some of Dominant’s LEDs infringed one of OSRAM’s patents that had not been included in the opinion letter. Further, the ALJ found, among other things, that the asserted patents, including the particle size patents and the lead frame patents, listed in the opinion letter were either invalid or not infringed. After reviewing the ALJ’s findings, the ITC held that the particle size patents were not invalid and remanded the case to the ALJ to determine whether those patents were infringed. On remand, the ALJ found no violation with respect to the particle size patents. The ITC made its final determination by ruling that Dominant’s accused products infringed the lead frame patents, which had been listed in the opinion letter, but not the particle size patents. However, on appeal, the Federal Circuit reversed the ITC’s ruling regarding the particle size patents and concluded that Dominant had infringed OSRAM’s particle size patents as well.

Prior to these decisions, but after filing an answer to OSRAM’s complaint at the ITC, Dominant sued OSRAM alleging unfair competition, trade libel, and interference with contractual relations and prospective economic advantage under California statutory and common law. Underlying Dominant’s claim was its contention that in the opinion letter, e-mail, and press releases, OSRAM made false and misleading infringement allegations about Dominant’s products and asserted its patent rights in bad faith. OSRAM moved for SJ, arguing that there was no evidence that its prelitigation communications had been made in bad faith. The district court agreed and granted SJ. Dominant appealed.

On appeal, the Federal Circuit observed that federal patent law bars the imposition of liability for publicizing a patent in the marketplace unless the plaintiff can show that the patent holder acted in bad faith. Dominant asserted that OSRAM’s statements were made in bad faith because, without having conducted a proper infringement analysis, OSRAM made the statements without regard to whether they were true. The Federal Circuit disagreed, explaining that bad faith includes separate objective and subjective components, and to be objectively baseless, the infringement allegations must be such that no reasonable litigant could reasonably expect success on the merits. The Court reasoned that “when an underlying infringement suit was not unsuccessful, there is no basis to determine that the plaintiff in that suit lacked probable cause or, as it applies to the present situation, had no objective basis to claim infringement before filing suit.” *Id.* at 12. Here, noted the Court, by the time the district court granted SJ, OSRAM had successfully defeated Dominant’s motion for SJ of noninfringement in the ITC, and the ALJ had found infringement of one of OSRAM’s asserted patents.

Dominant also asserted that the Court should apply a new standard for objective baselessness: the same standard that is applied in the context of requests for sanctions under Fed. R. Civ. P. 11. It asserted that Rule 11 allows for sanctions when a patentee sued for infringement prior to testing the accused product and that the Court should apply this standard here, a standard that OSRAM would not be able to meet because the attorney who wrote the opinion letter did not test the accused devices before rendering the opinion. The Federal Circuit disagreed, noting that it had never stated that the Rule 11 standard was the same as the standard applied in bad-faith cases and that, even if the standards were the same, Dominant had not identified any case in which, when a party had not lost the underlying litigation, a court awarded Rule 11 sanctions against that party for failing to conduct a sufficient infringement analysis prior to filing suit.

Dominant further asserted that the ITC proceedings were irrelevant to the issue of bad faith during the 2001-2003 period in which the challenged communications were made, because OSRAM did not commence its ITC suit until 2004. Dominant

“[A] successful outcome of the underlying litigation refutes a conclusion that the litigation was objectively baseless at the outset.” Slip op. at 12.

based this argument on its belief that OSRAM had the burden of proof that it did not “bootstrap” an objective basis for making the earlier statements. The Federal Circuit disagreed with this argument as well, explaining that Dominant had failed to provide enough evidence suggesting that OSRAM’s conduct was objectively baseless. The Court explained that even though OSRAM did not allow Dominant suitable discovery before it moved for SJ, Dominant had the option to file a Rule 56(f) motion to delay consideration of SJ until discovery was completed and failed to do so. Further, the Court reasoned that OSRAM had satisfied its burden of production by producing evidence showing that its claims were not objectively baseless when it showed that it was successful in the underlying litigation.

Finally, the Court noted that Dominant’s argument that the attorney who wrote the opinion letter had not performed a sufficient analysis, though arguably relevant on the issue of subjective intent, had nothing to do with the issue of objective baselessness. Accordingly, the Federal Circuit concluded that because Dominant failed to identify a genuine fact regarding whether OSRAM’s communications were objectively baseless, the district court’s entry of SJ for OSRAM was appropriate.

Proof of Alleged Patent or Copyright Infringement in the United States Is Required to Prevail on the Merits, but Not for Establishing Subject Matter Jurisdiction

David Albagli

Judges: Newman, Archer, Gajarsa (author)

[Appealed from E.D. Mo., Judge Webber]

In *Litecubes, LLC v. Northern Light Products, Inc.*, No. 06-1646 (Fed. Cir. Apr. 28, 2008), the Federal Circuit affirmed the district court’s denial of Northern Light Products, Inc.’s (“GlowProducts”) motion to dismiss for lack of subject matter jurisdiction, holding that a plaintiff must provide that allegedly infringing activity took place in the United States to prevail on claims of patent or copyright infringement, but failure to do so does not divest the federal courts of subject matter

jurisdiction. The Federal Circuit also affirmed the district court’s denial of GlowProducts’ JMOL motion, finding that substantial evidence supported the jury’s finding of infringement.

Carl R. Vanderschuit is the inventor and owner of U.S. Patent No. 6,416,198 (“the ’198 patent”), which discloses an illuminatable novelty item that can be placed in beverages, i.e., a lighted artificial “ice cube.” Vanderschuit is also the owner and founder of Litecubes, LLC, which is the licensee of the ’198 patent and the owner of a registered copyright on the Litecube. Vanderschuit and Litecubes, LLC (collectively “Litecubes”) sued GlowProducts for patent and copyright infringement. GlowProducts is a Canadian corporation with no offices, facilities, or assets in the United States. GlowProducts sold the accused products directly to customers located in the United States and shipped the products f.o.b. from its Canadian offices. “F.o.b.,” or “free on board,” is a method of shipment whereby goods are delivered at a designated location, usually a transportation depo, at which legal title, and thus the risk of loss, passes from seller to buyer.

During trial, GlowProducts argued for the first time that the district court lacked subject matter jurisdiction because there was no evidence of a sale or importation of the accused products into the United States. It argued that because its sales to U.S. customers were shipped f.o.b., the sales took place in Canada and that it was the customer who imported the goods into the United States. After the jury verdict of willful infringement, GlowProducts filed a motion to dismiss for lack of subject matter jurisdiction on this ground. The district court denied the motion, not on a jurisdictional analysis, but based on a finding that the evidence of infringement was sufficient to establish subject matter jurisdiction because GlowProducts clearly imported the accused products into the United States. The district court also dismissed GlowProducts’ motion for JMOL, concluding that substantial evidence supported the jury’s verdict. GlowProducts appealed.

On appeal, the Federal Circuit first addressed the district court’s denial of GlowProducts’ motion to dismiss. It explained that under what is known as the “well-pleaded complaint rule,” subject matter jurisdiction exists if a well-pleaded complaint establishes either that federal patent law creates the cause of action or that the plaintiff’s right to relief necessarily depends on resolving a substantial

question of federal patent law. The Court noted that Litecubes alleged in its complaint that GlowProducts violated 35 U.S.C. § 271(a) and that this statute created a federal cause of action for patent infringement over which district courts have subject matter jurisdiction under 28 U.S.C. §§ 1331 and 1338(a). The Court noted further that Litecubes, as GlowProducts conceded, properly pled every element of a § 271(a) claim by alleging that GlowProducts had infringed the '198 patent. The Court rejected GlowProducts' argument that there was no subject matter jurisdiction because Litecubes failed to prove that GlowProducts sold or offered to sell products in the United States or imported products into the United States. The Court explained that subject matter jurisdiction does not fail simply because the plaintiff might be unable to ultimately succeed on the merits. It reasoned that a failure to prove the allegations alleged in a complaint requires a decision on the merits, not a dismissal for lack of subject matter jurisdiction. Accordingly, the Court concluded that there was no question that Litecubes' allegations, which stated a claim under the patent laws, were sufficient to create general federal question jurisdiction.

Moreover, noted the Court, while Congress could restrict the federal question jurisdiction under § 1331 or § 1338, the Supreme Court reiterated, in *Arbaugh v. Y & H Corp.*, 546 U.S. 500 (2006), that it is critical to distinguish between a statutory limitation that is truly jurisdictional and one that is simply an element of the claim that must be established on the merits. The Court observed that the *Arbaugh* court created a bright line rule for analyzing the difference: “[I]f the Legislature clearly states that a threshold limitation on a statute’s scope shall count as jurisdictional, then courts and litigants will be duly instructed But when Congress does not rank a statutory limitation on coverage as jurisdictional, courts should treat the restriction as non-jurisdictional in character.” Slip op. at 12. The Court found no clear statement in § 271 or in any other statute that § 271’s requirement that the infringing act happen within the United States was a threshold jurisdictional requirement as opposed to an element of the claim. It noted that to the contrary, the statute in no way distinguished the territorial limitation from any of the other elements necessary to show infringement.

The Federal Circuit further considered the tendency prior to *Arbaugh* to refer to limitations on the extraterritorial reach of a statute as “jurisdictional.” The Court concluded that a limitation regarding the

extraterritorial scope of a statute does not convert what would otherwise be a factual element of a claim into a restriction on the subject matter jurisdiction of federal courts. The Court explained that there is no absolute rule prohibiting the extraterritorial reach of federal statutes and that if Congress has extended a cause of action to reach extraterritorial activity, there is no independent bar to the federal courts adjudicating such extraterritorial disputes, provided a court has personal jurisdiction over the defendants. It observed that a limitation on the extraterritorial scope of a statute was no different than any other element of a claim that must be established before relief can be granted.

Accordingly, the Court held that “whether the allegedly infringing act happened in the United States is an element of the claim for patent infringement, not a prerequisite for subject matter jurisdiction,” and affirmed the district court’s denial of GlowProducts’ motion to dismiss for lack of subject matter jurisdiction. *Id.* at 17. In so doing, the Court noted that there was no need for the district court to consider whether GlowProducts had imported products into the United States in order to determine whether it had jurisdiction and that Litecubes, by alleging a violation of § 271, properly invoked jurisdiction under §§ 1331 and 1338.

The Federal Circuit next addressed GlowProducts’ argument that the district court had no subject matter jurisdiction over Litecubes’ copyright claims. The Court noted that it normally applies regional circuit law to issues of copyright law. It noted, however, that it would apply Federal Circuit law here because, although the issue implicated the substance of the Copyright Act, it was ultimately a question of the Court’s jurisdiction. The Court observed that both parties agreed that the Patent Act and the Copyright Act should be interpreted consistently and that if the Patent Act’s requirement that the infringing act take place in the United States was not a jurisdictional requirement, the exclusion from the Copyright Act of acts taking place entirely abroad should also not be jurisdictional. The Federal Circuit also agreed, noting that the principles and case law that led it to conclude that the Patent Act’s territorial requirement is an element of the claim that must be established to prove infringement, but not a requirement for subject matter jurisdiction, applied equally to the Copyright Act’s limitation on the extraterritorial reach of the statute. The Court noted that there was no indication that Congress intended the

extraterritorial limitations on the scope of the Copyright Act to limit the subject matter of the federal courts. Accordingly, it held that the issue is properly treated as an element of the claim that must be proved before relief can be granted, not a question of subject matter jurisdiction, and affirmed the district court's denial of GlowProducts' motion to dismiss for lack of subject matter jurisdiction.

The Federal Circuit next turned to GlowProducts' JMOL motion that substantial evidence did not support the jury's verdict of copyright and patent infringement. Specifically, GlowProducts argued that the evidence was insufficient to establish a sale or offer for sale of the allegedly infringing products within the United States or importation of the products to the United States. The Federal Circuit disagreed. It noted that although the district court based its ruling on a finding that GlowProducts imported its goods into the United States, the preferable initial inquiry was whether there was a sale within the United States.

While it was uncontested that GlowProducts sold and shipped the accused products to customers in the United States, GlowProducts argued that these were not sales in the United States because the products were shipped f.o.b. and, thus, title over the goods was transferred while the goods were still in Canada. The Court rejected this argument, finding that there was substantial evidence of a sale within the United States for the purposes of § 271. It explained that it has previously, in the context of personal jurisdiction, "rejected the notion that simply because goods were shipped f.o.b., the location of the 'sale' for the purposes of § 271 must be the location from which the goods were shipped," and that to the contrary, it determined that the sale also occurred at the location of the buyer. *Id.* at 24 (citing *N. Am. Philips Corp. v. Am. Vending Sales, Inc.*, 35 F.3d 1576 (Fed. Cir. 1994)). The Court noted that since the American customers were in the United States when they contracted for the accused products, and the products were delivered directly to the United States, substantial evidence supported the jury's conclusion that GlowProducts sold the accused products within the United States.

The Federal Circuit similarly concluded that substantial evidence supported the jury's verdict of copyright infringement. The Court noted that the Copyright Act did not explicitly require that sales be "in the United States," but that courts have generally held that it does not reach activities that take place entirely abroad. *Id.* at 28. It found that

substantial evidence supported the jury's conclusion that, by selling to customers in the United States, GlowProducts' distribution of the accused products had taken place, at least in part, in the United States. Accordingly, it affirmed the denial of JMOL with respect to the copyright claim.

Finally, the Court turned to GlowProducts' argument that the district court erred in denying its JMOL motion with respect to infringement by one of the accused products because those products did not meet one of the claim limitations. The Federal Circuit disagreed, noting that substantial evidence supported the jury's verdict, and affirmed the district court's denial of JMOL.

Section 285 Authorizes an Award of Attorney Fees in Exceptional Cases, but Exceptionality Is Only an Element for That Award, Not a Separate Sanction

Jim P. Kastenmayer

Judges: Rader (author), Schall, Farnan (District Judge sitting by designation)

[Appealed from E.D. Va., Senior Judge Payne]

In *Samsung Electronics Co. v. Rambus, Inc.*, No. 06-1579 (Fed. Cir. Apr. 29, 2008), the Federal Circuit held that because Rambus, Inc. ("Rambus") offered to pay Samsung Electronics Company, Ltd.'s ("Samsung") attorney fees, the district court's order denying Samsung's motion for attorney fees, but entering findings with respect to the spoliation of evidence, was issued without jurisdiction. Accordingly, the Court vacated that order and remanded the case to the district court with instruction to dismiss Samsung's complaint.

Rambus sued Samsung in the Northern District of California alleging infringement of four Rambus patents directed to dynamic random access memory devices ("DRAMs"). The next day, Samsung filed a DJ action in the Eastern District of Virginia seeking a declaration that the patents were invalid, unenforceable, and not infringed. Because the DJ action was related to a prior litigation involving the same patents, the district court accepted jurisdiction. In that prior case, *Rambus v. Infineon Technologies*

AG, 164 F. Supp. 2d 743 (E.D. Va. 2001), the district court had ruled from the bench that Rambus had unclean hands due to spoliation of evidence. Rambus settled that case and as a result, the district court dismissed it before entry of any findings or judgment against Rambus.

Rambus unsuccessfully moved to transfer this case from Virginia to the Northern District of California, where Rambus had originally filed suit against Samsung and where other lawsuits involving the same patents were ongoing. On the other hand, Samsung was aware of the adverse findings against Rambus in *Infineon* and sought to keep the case in Virginia due to the possibility of invoking collateral estoppel on the basis of the earlier unpublished spoliation findings. Subsequently, Rambus filed covenants not to sue Samsung on the four patents at issue and voluntarily dismissed its infringement counterclaims. As a result, the district court dismissed the case as moot, but retained jurisdiction to adjudicate Samsung's claim for attorney fees under 35 U.S.C. § 285. Rambus offered to compensate Samsung for the full amount of its requested attorney fees and even followed up with a formal offer of judgment. Samsung, however, rejected Rambus's offer. The district court ultimately issued an order denying Samsung's motion for attorney fees, but held that the case was exceptional under 35 U.S.C. § 285 and issued the unpublished spoliation findings from *Infineon*. Rambus appealed.

On appeal, Rambus asked the Federal Circuit to dismiss its appeal for lack of jurisdiction. It asserted that because it was the prevailing party on the issue of attorney fees, it lacked standing to challenge the district court's findings. In the alternative, Rambus argued that the Court should hold that the district court lacked jurisdiction to rule on the issue of attorney fees because the issue was moot in view of Rambus's offer to pay Samsung's attorney fees. The Federal Circuit noted that although Rambus's argument that it lacked standing to appeal raised a legitimate question, it was not necessary for it to decide that issue because the Court could assume, *arguendo*, that Rambus had standing to appeal. Accordingly, the Court turned to Rambus's argument that the district court lacked jurisdiction.

The Court reasoned that under Article III of the Constitution, courts may adjudicate only actual, ongoing cases and controversies. It stated that “[a]n offer for full relief moots a claim for attorney fees.” Slip op. at 6. It explained that the authorities cited by the district court to retain jurisdiction, which stood for the proposition that a district court retains subject matter jurisdiction to impose sanctions even after a case becomes moot, did not apply in this case. According to the Court, those cases provide a district court discretion to postpone collateral issues, such as costs, fees, and contempt proceedings, until completion of the principal action. The Court noted, however, that 35 U.S.C. § 285 was not a separate sanctions statute, and that “[t]he only sanction for which section 285 provides is attorneys fees.” *Id.* at 7. Thus, held the Court, because “the issue at bar [was] not a collateral issue and the statute is not a separate sanctions statute in and of itself, the district court lack[ed] jurisdiction beyond full settlement of the fees dispute.” *Id.*

Looking to the language of section 285, which states that “[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party,” the Court explained that exceptionality is an element for the imposition of attorney fees, not a separate sanction for which a district court can retain jurisdiction. It noted that the district court did not have independent jurisdiction to assess the exceptionality after Rambus offered the entire amount of attorney fees in dispute. It concluded that the district court lacked jurisdiction to issue opinions in conjunction with an attorney fee issue that had ceased to exist.

In so concluding, the Federal Circuit noted that courts possess inherent powers to sanction litigation misconduct and may use those powers to assess attorney fees. In this case, noted the Court, the district court recognized the availability of its inherent power to sanction, but expressly declined to invoke that power. The Court reasoned that in any event, the district court's power to use its inherent power could not exceed its jurisdiction over the case itself, and that once the attorney fees were offered, the case was moot and the district court lacked jurisdiction. Accordingly, the Federal Circuit vacated the district court's order regarding attorney fees and spoliation, and remanded to the district court with instruction to dismiss Samsung's complaint.

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
		TTAB	Trademark Trial and Appeal Board

Looking Ahead

- On May 9, 2008, a petition for a writ of certiorari was filed with the U.S. Supreme Court in *Nuijten v. Dudas*, No. 06-1371 (Fed. Cir. Sept. 20, 2007), a case in which the Federal Circuit held that signals that were embedded with information were unpatentable because they fit into none of the four categories of patentable subject matter set forth in 35 U.S.C. § 101.
- On May 8, 2008, the Federal Circuit heard oral argument en banc in *In re Bilski*, No. 07-1130, a case addressing the scope of patentable subject matter under 35 U.S.C. § 101.
- On May 7, 2008, the PTO decided to file an appeal in *Tafas v. Dudas* to the Federal Circuit, challenging the decision by Judge Cacheris in the Eastern District of Virginia that enjoined enforcement of new PTO rules relating, inter alia, to the number of continuation applications that an applicant may file.
- On April 21, 2008, the Supreme Court issued an order inviting the Office of the U.S. Solicitor General to submit a brief expressing the government's views on a petition for certiorari in *Biomedical Patent Management Corp. v. California Department of Health Services*, No. 06-1515 (Fed. Cir. Oct. 23, 2007), a case in which the Federal Circuit held that the state of California did not waive its sovereign immunity under the 11th Amendment in a patent infringement suit by intervening in an earlier, related lawsuit.
- On April 16, 2008, Translogic filed a petition for certiorari to the Supreme Court in *Translogic Technology Inc. v. Dudas*, No. 06-1192 (Fed. Cir. Oct. 12, 2007). Translogic argues that one of the members of the PTO Board was unconstitutionally appointed in violation of the Appointments Clause, which grants the right of appointments to the U.S. president, to courts, and to heads of departments. The issue could potentially affect thousands of Board decisions that issued since 2000.

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Last Month at the Federal Circuit



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