

Last  
month at

# The Federal Circuit

Month at a Glance



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EDITED BY VINCE KOVALICK

## Court Rejects Argument That “Intel [Not] Inside” Antitrust Law

Gregory A. Chopskie

[Judges: Newman (author), Smith, and Plager]

In *Intergraph Corp. v. Intel Corp.*, No. 98-1308 (Fed. Cir. Nov. 5, 1999), the Federal Circuit vacated a district court’s grant of a preliminary injunction against Intel Corporation (“Intel”), holding that the district court erred in finding a substantial likelihood of success on the merits of Intergraph Corporation’s (“Intergraph”) antitrust claims.

Intel, a manufacturer of high-performance microprocessors, supplied microprocessors to Intergraph, a manufacturer of graphic workstations and a “strategic customer” of Intel. As part of this “special customer” relationship, Intel provided Intergraph, under nondisclosure agreements, with special benefits, including proprietary information and prerelease products.

Beginning in 1996, the relationship between Intel and Intergraph began deteriorating until finally, in 1997, Intergraph sued Intel for infringement of Intergraph’s patented “Clipper” microprocessor technology. As the relationship deteriorated, Intel began withdrawing special benefits to Intergraph.

The district court branded Intel a “monopolist,” held that Intergraph had a substantial likelihood of success on the merits in proving that withdrawal of these benefits constituted an antitrust violation under both sections 1 and 2 of the Sherman Act, and granted a preliminary injunction. The district court embraced several theories in holding that Intel had violated the Sherman Act: (1) the essential facility theory and the corollary theory of refusal to deal, (2) leveraging, (3) coercive reciprocity and tying, (4) restraint of trade in its use of intellectual property, (5) conspiracy, and (6) retaliatory enforcement of the nondisclosure agreements. The district court, in the

alternative, ruled that Intergraph was likely to succeed on its contract claims, including the claim that the mutual at-will termination provision of the nondisclosure agreements is unconscionable.

The Federal Circuit rejected each of these theories as inappropriate under the facts and vacated the injunction. In rejecting the district court’s holding that Intel was a monopolist and that the withdrawal of benefits amounted to a denial of access to an essential facility, the Federal Circuit emphasized that Intel and Intergraph did not compete in the same markets. Moreover, although Intergraph had argued that it was harmed, it had failed to show harm to public competition. The Court rejected the “refusal to deal” theory because Intergraph had failed to offer necessary evidence that Intel’s refusal to provide special benefits harmed the competitive process. Similarly, the Court denied Intergraph’s leveraging argument on the ground that Intergraph had failed to offer evidence that Intel’s mere plan to enter the graphic subsystems market would necessarily have an adverse effect on the secondary market.

With regard to Intergraph’s “coercive reciprocity” and tying arguments, the Court ruled that Intel’s various failed licensing proposals to settle the suit furthered no illegal relationships and did not result in actual or threatened monopolization. The Court dismissed Intergraph’s position that Intel’s refusal to share its patented and copyrighted technology amounted to a restraint of trade, stating that antitrust law does not obligate a firm to provide its technology. The Court also rejected Intergraph’s conspiracy theory, stating that Intergraph had failed to point to any evidence that customers were required not to deal with Intergraph or that Intel’s actions had any effect on actual or potential monopolization. Finally, the Court ruled that Intel’s invocation of the unilateral termination provisions in the nondisclosure agreements was neither a violation of antitrust laws nor unconscionable.

## Federal Patent Law Preempts State Law on Inventorship

Scott J. Popma

[Judges: Rader (author), Bryson, and Rich (heard oral argument)]

In *University of Colorado Foundation, Inc. v. American Cyanamid Co.*, No. 97-1468 (Fed. Cir. Nov. 19, 1999), the Federal Circuit vacated a district court's decision on inventorship as being improperly based on state common law inventorship standards. Correspondingly, the Federal Circuit vacated the district court's fraudulent nondisclosure, unjust enrichment, and damages decisions that hinged on the inventorship finding. The Federal Circuit also vacated summary judgment ("SJ") in favor of American Cyanamid Co. ("Cyanamid") that inventorship and equitable title could not be corrected and upheld the district court's copyright damages decision.

The University of Colorado and related Plaintiffs ("the University") and two of its doctors ("the Doctors") brought suit in the U.S. District Court for the District of Colorado against Cyanamid and Dr. Ellenbogen, alleging that the Doctors were the true inventors of U.S. Patent No. 4,431,634 ("the '634 patent"), that they had communicated the patented invention to Dr. Ellenbogen at Cyanamid, that Dr. Ellenbogen and Cyanamid intentionally had omitted the Doctors as coinventors, and subsequently hid the patent from them.

The University sought damages for fraudulent nondisclosure, patent infringement, and copyright infringement (for placing unauthorized reproductions of graphs and tables in their patent specification). The University sought restitution of Cyanamid's profits from sales of the prenatal multivitamin/mineral supplement covered by the '634 patent. The University also sought equitable title to the '634 patent and sought to have the Doctors named as the inventors of the '634 patent under 35 U.S.C. section 256.

The district court had granted SJ to Cyanamid denying the University's claims of patent infringement and ownership of equitable title to the '634 patent. The district court had also refused to substitute the Doctors as the named inventors on the '634 patent, and granted SJ to the University on the copyright infringement claim.

After a bench trial, the district court found that the Doctors had invented the invention claimed in the '634 patent and that Dr. Ellenbogen was not an inventor. The district court based this finding on state common law rather than federal patent law. Based on this inventorship finding, the district court held Cyanamid liable to the University for the state law claims of fraudulent nondisclosure and unjust enrichment, awarding damages of over \$44 million and punitive damages of \$500,000 to each of the Doctors.

On appeal, the Federal Circuit was asked to determine whether federal patent law preempts the state law of fraudulent nondisclosure and unjust enrichment, and whether federal patent law preempts state laws dictating standards for inventorship. The Federal Circuit found that federal patent law does not preempt state fraudulent disclosure or unjust enrichment claims because these causes of action do not bear on federal patent policies, do not impose requirements inconsistent with federal law, and do not stand as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress.

However, the Federal Circuit ruled that federal patent law does preempt any state law that purports to define rights based on inventorship. The Court reasoned that an independent inventorship standard under state law would likely have different requirements and give rise to different remedies than federal patent law, and that this would frustrate the dual federal objectives of rewarding inventors and supplying uniform patent laws. They also reasoned that Title 35 of the U.S. Code contains explicit and detailed standards for inventorship, which leaves no room for states to supplement the national standard for inventorship.

Having so ruled, the Federal Circuit vacated the district court's inventorship decision and remanded to the district court to determine the correct inventors of the '634 patent under federal patent law. The Federal Circuit also found that the district court's fraudulent nondisclosure and unjust enrichment claims hinged on the inventorship determination and thus, vacated these judgments and associated damage awards.

The Federal Court also found error in the district court's damages determination. It concluded that even if the Doctors were found to be the true inventors of the '634 patent, they could only be awarded a reasonable licensing fee at the time of the patent application's filing. The Court reasoned that the University was not in the marketing or manufacturing business, and had never sought to obtain a patent on the prenatal supplement.

Therefore, the only financial opportunity that the University could have lost was the payment for an assignment of ownership rights or a license to sell the patented product at the time the patent issued.

Finally, the Federal Circuit vacated the district court's grant of SJ in favor of Cyanamid on the correction of inventorship and equitable patent title issues. The district court had incorrectly based these decisions on the belief that actual inventors could not be substituted for a fraudulently named inventor without thereby invalidating the patent. The Federal Circuit ruled, however, that 35 U.S.C. section 256 allows correction of nonjoinder without invalidating a patent.

## Insurance Does Not Cover Patent Dispute

*Christina V. Karnakis*

**[Judges: Lourie (author), Mayer, and Michel]**

In *U.S. Test, Inc. v. NDE Environmental Corp.*, No. 99-1087 (Fed. Cir. Nov. 19, 1999) the Federal Circuit reviewed a summary judgment

("SJ") decision holding that United Coastal Insurance Co. ("UCIC") had no duty to defend U.S. Test, Inc. ("U.S. Test") in their patent infringement suit against NDE Environmental Corp. ("NDE") based on an "advertising injury" provision of an insurance agreement.

U.S. Test makes and sells an ultrasonic device used to detect leaks in underground fuel storage tanks. NDE, a U.S. Test competitor, acquired an exclusive license to two patents that covered the ultrasonic gauging of tanks. After acquiring rights under these patents, NDE sent cease-and-desist letters to several of U.S. Test's customers, charging them with patent infringement in their use of U.S. Test's ultrasonic devices. In response to these letters, U.S. Test filed a declaratory judgment action for noninfringement. NDE subsequently counterclaimed for infringement of these two patents. U.S. Test then amended its complaint, making UCIC, its general commercial liability insurer, a third Defendant party.

U.S. Test moved for SJ to compel UCIC to defend the suit based on the "advertising injury" provision of its insurance policy with UCIC, which the district court granted.

This provision defined an "advertising injury" as follows:

injury arising out of one or more of the following offenses:

- a. oral or written publication of material that slanders or libels a person or organization or disparages a person's or organization's goods, products, or services;

\* \* \*

- d. infringement of copyright, title, or slogan.

*U.S. Test*, slip op. at 4

On appeal, the Federal Circuit noted that an insurance policy is a contract, and therefore, state contract law must govern the construction of the policy's terms. The Court noted that, under Louisiana law, the parties' intent determines the extent of the insurance coverage. This intent must be determined in

accordance with the ordinary meaning of the words used in the policy, unless they have acquired some technical meaning to the contrary. Although courts should construe ambiguous provisions in favor of the insured party, Louisiana precedent does not permit a court to distort or alter the words of a contract when the terms contained therein adequately express the intent of the parties to the contract.

The Federal Circuit noted that the word "patent" is notably missing from the terms and provisions of the insurance policy. According to the Court, this absence reflects the parties' intention that patent infringement suits were not to be covered by the insurance policy. As a result, UCIC had no duty to defend U.S. Test in NDE's patent infringement counterclaim. Moreover, the Federal Circuit also rejected U.S. Test's attempts to inject ambiguity and uncertainty into what the Court considered an otherwise unambiguous insurance contract. Therefore, the Federal Circuit upheld the district court's grant of SJ to UCIC.

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## Double Patenting Leaves Gypsum Board Patent Invalid

*Vanessa B. Pierce*

**[Judges: Bryson, Archer, and Gajarsa (*per curiam*)]**

In *Georgia-Pacific Corp. v. United States Gypsum Co.*, No. 97-1238 (Fed. Cir. Nov. 1, 1999), the Federal Circuit affirmed, reversed, and vacated various judgments of the district court concerning the validity and infringement of multiple claims of four Georgia-Pacific Corp. ("Georgia-Pacific") patents covering fiberglass mat-reinforced gypsum and exterior insulation systems.

Georgia-Pacific sued United States Gypsum Company and L & W Supply

Corporation ("USG") for infringement of various claims of United States Patents: 4,647,496 ("the '496 patent"); 5,371,989 ("the '989 patent"); 5,319,900 ("the '900 patent"); and 4,810,569 ("the '569 patent") (not at issue in the appeal).

USG contended that the '989 patent, which issued more than five years after the '569 patent, was invalid for obviousness-type double patenting over the claims of the '496 and the '569 patents. The district court found that USG had presented no competent evidence in support of its contention and thereby dismissed the contention as lacking merit.

Claim 1 of the '569 patent differs only slightly from claim 1 of the '989 patent. For example, claim 1 of the '569 patent requires one outer surface of the gypsum board to be free of gypsum, and the other outer surface to be coated with gypsum. Claim 1 of the '989 patent requires at least one outer surface to be free of gypsum, but does not address the other outer surface. The Federal Circuit determined that this difference did not distinguish the claims in a nonobvious way, in particular because the prior art showed that it was well known to make a board with a gypsum coating on at least one side.

Claim 1 of the '989 patent also uses the transitional term "consisting of," while claim 1 of the '569 patent uses the term "comprises." Georgia-Pacific asserted that these terms have different meanings that rise to the level of a patentable distinction. The Federal Circuit agreed that the terms differ in scope, but disagreed that the difference created a patentable distinction. According to the Court, the invention claimed in the '989 patent was merely a subset of that claimed in the '569 patent. Thus, claim 1 of the '989 patent was an obvious variation of claim 1 of the '569 patent.

Similarly, the Federal Circuit noted that neither independent claim 17 nor any dependent claim in the '989 patent had added any limitation of patentable distinction over the '569 and '496 patents. Thus, the Court invalidated claims 1, 5, 9, 10, 12, 15,

and 17 of the '989 patent, and vacated the district court's judgment that USG had infringed these claims. The Court also invalidated claim 8 and vacated the new trial order for this claim.

As for the '900 patent, a jury had found that USG infringed claims 1 and 2, but the district court ruled that the evidence did not support that finding and ordered a new trial for both claims.

The Federal Circuit affirmed, finding that the district court had not abused its discretion in ordering the new trial.

USG also asserted that the claims in the '900, '989, and '496 patents were invalid under 35 U.S.C. section 103. Having concluded that the '989 claims were invalid for obviousness-type double patenting, the Federal Circuit did not address the issue for the '989 patent. As for the '900 patent claims, the Federal Circuit concluded that USG had failed to carry its burden to show by clear and convincing evidence that the claims were invalid.

Regarding the '496 patent, the evidence demonstrated the need for a better system, the lack of suggestion in the prior art of the claimed system, and the success of the claimed system. Thus, the Federal Circuit affirmed the district court's denial of USG's motion of judgment as a matter of law ("JMOL") of invalidity.

Concerning infringement of the '496 patent, a jury had found that USG infringed claims 1, 2, 5, and 11. The district court upheld the jury verdict, except with regard to claim 11. The district court had determined that Georgia-Pacific had not advanced enough evidence to support an infringement verdict with respect to claim 11, and granted USG a new trial. USG appealed the holding of infringement and the denial of its motion for a JMOL. Both USG and Georgia-Pacific appealed the order granting a new trial for claim 11.

Claim 11 is directed to a gypsum core "sandwiched" between two fiberglass mats. The district court had determined that "sandwiched" meant that the gypsum core had to

remain between the mats and thus did not apply to a board where the gypsum core could penetrate to the outside of a mat. In interpreting this term in other claims, however, the district court had determined that "sandwiched" did not preclude the gypsum core from flowing to the outside of one of the fiberglass mats.

Because the record lacked evidence to support a different meaning for the term "sandwiched" in claim 11, the Federal Circuit determined that the evidence supported the jury's finding that USG infringed claim 11. The Federal Circuit explained that a patent term cannot be given a different meaning in various claims of the same patent unless the evidence suggests that a different meaning was contemplated. Thus, the Federal Circuit reversed the district court's grant of a new trial and reinstated the jury's finding of infringement with respect to claim 11.

Lastly, Georgia-Pacific asserted that USG had obtained a flawed legal opinion and therefore, should be unable to rely on the opinion to obviate willfulness. The district court disagreed that the opinion was flawed. Although the opinion could have been more complete, according to the court, USG should have felt comfortable relying on it. Further, the district court found no evidence that USG proceeded with wrongful intent or in reckless disregard of Georgia-Pacific's rights. The Federal Circuit affirmed.

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## Shop Rights in Patent Prevent Infringement

*Sanya Sukduang*

**[Judges: Clevenger (author), Newman, and Archer]**

In *Schroeder v. Tracor, Inc.*, No. 99-1281 (Fed. Cir. Nov. 5, 1999), the Federal Circuit affirmed the district court's grant of summary

judgment (“SJ”) of noninfringement in favor of Tracor, Inc. (“Tracor”) and AEL Industries, Inc. (“AEL”) on the ground that AEL enjoyed a shop right in Dr. Klaus G. Schroeder’s inventions covered by U.S. Patent Nos. 4,750,000 (“the ‘000 patent”) and 4,958,167 (“the ‘167 patent”). The ‘000 and ‘167 patents are directed to “ultra-broadband impedance matched electronically small self-complementary pair antennas.”

On May 2, 1983, Dr. Schroeder signed an employment agreement with AEL in which he agreed to assign all of his rights in inventions or improvements conceived by him regardless of whether they were within the scope of his employment, except for certain inventions that Schroeder expressly identified. On September 16, 1987, and June 7, 1988, Dr. Schroeder filed applications that ultimately became the ‘000 and ‘167 patents, respectively. Dr. Schroeder offered to AEL the subject matter of the ‘000 patent as an improvement to its existing countermeasures product line but not until after the ‘000 patent had issued did he inform AEL that he had applied for these patents.

Many years after being terminated by AEL, Schroeder filed suit against AEL and Tracor alleging infringement of the ‘000 and ‘167 patents. AEL and Tracor moved for SJ based upon the existence of a shop right over the patented inventions. The district court found that Dr. Schroeder had failed to raise a genuine issue of material fact sufficient to rebut AEL’s shop-right defense and therefore, granted AEL’s and Tracor’s SJ motion.

On appeal, the Federal Circuit found that Dr. Schroeder had consented to AEL’s use of the ‘000 and ‘167 patents. Furthermore, the Court found that Dr. Schroeder could not offer any admissible evidence to show that he had not consented to AEL’s use or that AEL was not entitled to a shop-right defense. The Court noted that Dr. Schroeder’s repeated assertions that he had demanded royalties from AEL, and thus did not consent to the use of the ‘000 and ‘167 patents, conflicted with his state-

ments that he specifically had avoided asking for royalties for fear that he may be fired.

The Federal Circuit, concluding that Dr. Schroeder had allowed AEL to use the patented inventions for a number of years without objecting or demanding royalties, agreed that AEL was entitled to shop rights and affirmed the SJ of noninfringement.

## Remaining Theis Claims Found Invalid

*Malcolm T. Meeks*

**[Judges: Rader, Friedman, and Archer (*per curiam*)]**

In *Octel Communications Corp. v. Theis Research, Inc.*, No. 99-1061 (Fed. Cir. Nov. 18, 1999) (nonprecedential decision), the Federal Circuit affirmed the district court’s decision holding claims 1 and 14-19 of U.S. Patent No. 4,559,416 (“the ‘416 patent”), owned by Theis Research, Inc. (“Theis”), invalid as anticipated.

The ‘416 patent relates to a monitor for telephone line activity that can also record information relevant to telephone usage. It was one of six patents originally asserted by Theis, but since it was only asserted against Northern Telecom, Inc. (“NTI”), the district court stayed proceedings on it pending resolution of the other five asserted patents.

The district court had granted NTI’s motion for summary judgment on the invalidity of claims 1 and 19 and had also found claims 14-18 invalid upon reconsideration. In doing so, the district court had interpreted the claim language to require that the invention need monitor only at least two line states, rather than five as described in the specification. Consequently, a prior art device made by NTI was found to anticipate the claims.

The Federal Circuit agreed with the lower court's claim construction and found no error in its application of the prior art to the claims.

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## Shelving Design "Supports" Noninfringement

*Ernest Hsin*

[Judges: Bryson, Skelton, and Gajarsa (*per curiam*)]

In *Ross v. Sonax Furniture Manufacturing, Ltd.*, No. 99-1045 (Fed. Cir. Nov. 16, 1999) (nonprecedential decision), the Federal Circuit affirmed the district court's grant of summary judgment of noninfringement, holding that Sonax Furniture Manufacturing, Ltd. ("Sonax") did not infringe U.S. Design Patent No. 327,381 ("the '381 design patent").

The '381 design patent claims the ornamental design of a storage shelving unit shown in four figures. The four figures depict a shelving unit having four nonadjustable, square-shaped shelves supported by four "L"-shaped posts and having a viewable open interior. The product manufactured by Sonax and accused of infringement is a shelving unit having removable and adjustable shelves and having an interior closed to view.

In considering whether Sonax's product infringes the '381 design patent, the Federal Circuit applied a two-part test: the "ordinary observer" test, and the "point of novelty" test. Answering to the "ordinary observer" test, a court must decide whether the accused product and a product covered by the design patent are so similar that an ordinary observer, paying as much attention as a purchaser typically does,

would mistakenly buy one product, thinking it was the other. Under the "point of novelty" test, a court must decide whether the accused product appropriates the novelty that distinguishes the patented product from the prior art.

The Federal Circuit found that based on both tests, the Sonax product does not infringe the '381 design patent. Addressing the "ordinary observer" test, the Court ruled that the contrast of the open interior of a product covered by the '381 design patent and the closed interior of the Sonax product is sufficient to prevent mistaken purchases.

Addressing the "point of novelty" test, the Court concluded that the freestanding, 'L'-shaped vertical posts, whose use results in an 'aesthetically pleasing' open look is the point of novelty of the '381 design patent. The Court ruled that, since Sonax's product lacks such features, it does not appropriate the point of novelty.

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