

Last Month at the Federal Circuit

July 2006

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- In a per curiam decision, the U.S. Supreme Court “dismissed as improvidently granted” the writ of certiorari in *Laboratory Corp. of America Holdings, d/b/a LabCorp v. Metabolite Laboratories, Inc.*, No. 04-607 (U.S. June 22, 2006), a case that addressed the issue of subject matter patentability. The result of the dismissal is that the verdict of patent validity and infringement of claims involving the correlation between homocysteine and B vitamin deficiencies is sustained. Justice Breyer, joined by Justices Stevens and Souter, dissented, stating that the parties and the government had briefed the question presented, the Court had the authority to decide the issue, and “those who engage in medical research, who practice medicine, and who as patients depend upon proper health care, might well benefit from this Court’s authoritative answer.”
- Judge Newman dissented from the denial of a petition for rehearing en banc in *Smithkline Beecham Corp. v. Apotex Corp.*, No. 04-1522 (Fed. Cir. June 22, 2006). In her view, the Court’s opinions on product-by-process claims, namely *Scripps Clinic & Research Foundation v. Genentech, Inc.*, 927 F.2d 1565 (Fed. Cir. 1991), and *Atlantic Thermoplastics Co. v. Faytex Corp.*, 970 F.2d 834 (Fed. Cir. 1992), do not conflict; however, “there has been enough misperception and casual misstatement among users of the patent system, to warrant our resolution of the debate.” Judge Rader also dissented in a separate opinion, stating that those product-by-process cases do conflict. In his view, giving “trial courts the option of ignoring the claim language altogether is simply inexcusable.” Judge Gajarsa joined both dissents.
- Judge Newman dissented from the denial of a petition for rehearing en banc in *Bruckelmyer v. Ground Heaters, Inc.*, No. 05-1412 (Fed. Cir. June 28, 2006). She gave her view that two cancelled drawings that were stored in an unpublished and unindexed archive of an unrelated Canadian patent application by a different inventor could not be considered a “printed publication” for prior art purposes.

Failure to Disclose Pertinent Data to Patent Counsel Undermined Noninfringement Opinion

Edward J. Naidich

Judges: Gajarsa (author), Dyk, Prost

In *Liquid Dynamics Corp. v. Vaughan Co.*, Nos. 05-1105, -1325, -1366, -1399 (Fed. Cir. June 1, 2006), the Federal Circuit affirmed the district court’s denial of a JMOL motion for noninfringement, invalidity, no willful infringement, and unenforceability due to inequitable conduct. The Federal Circuit also upheld the district court’s orders for a permanent injunction, enhanced damages, and attorneys’ fees.

Liquid Dynamics Corporation (“LD”) is the owner of U.S. Patent No. 5,458,414 (“the ’414 patent”), which involves a system of pumps that stirs mixtures of solids and liquids in large million-gallon tanks. The invention is primarily directed to applications for mixing wastewater and manure. LD brought suit against Vaughan Company, Inc. (“Vaughan”) alleging that forty-seven Vaughan tank installations infringed the ’414 patent. A jury returned a verdict that all forty-seven tank installations infringed the ’414 patent, that the infringement was willful, and that

Vaughan failed to prove that the ’414 patent was invalid. The jury awarded damages to LD in the amount of \$1,183,722. The district court then held a bench trial on Vaughan’s allegation of inequitable conduct, but granted LD’s motion for JMOL on that issue. The district court also trebled the jury’s damage award based upon the jury’s willfulness finding and awarded attorneys’ fees in the amount of \$1,501,239.

On appeal, the Federal Circuit first considered Vaughan’s argument that LD presented insufficient evidence that eleven of the forty-seven accused tank installations met the required tank nozzle placement and nozzle angle limitations required by the asserted claims. Vaughan pointed out that its chief engineer testified to his knowledge of four tanks with nozzles located outside the regions claimed by the patent.

The Federal Circuit rejected Vaughan’s arguments, concluding the jury could reasonably have discredited the testimony of Vaughan’s chief engineer and given more weight to the circumstantial evidence of the Vaughan engineering manual, which showed Vaughan’s regular method of installing tanks and also showed nozzle placement within the claim limitations. Thus, the Court held that there was substantial evidence that all forty-seven accused tank installations met the claim limitations of the ’414 patent.

The Federal Circuit also rejected Vaughan’s challenge to the admissibility and reliability of LD’s computer simulations that were used to establish a claim

limitation that required helical and rotational flow of the liquid and solids in the tank. The Court noted that Vaughan’s argument focused on the accuracy of the parameters applied by LD’s technical expert and not on the reliability of the general type of analysis performed by the expert. Thus, the Court concluded that Vaughan’s challenge went to the weight of the evidence rather than admissibility. Although LD’s expert admitted that his models did not exactly match the various accused tanks, this fact was fully discussed on cross-examination. The Court thus declined to “contravene the province of the jury by reweighing [the expert’s] testimony.” Slip op. at 17.

“The jury could use such a concealment of evidence from the attorney to discount the opinion.” Slip op. at 26.

The Federal Circuit also rejected Vaughan’s argument that there was insufficient evidence under 35 U.S.C. § 271(f)(1) that it intended for foreign purchasers to infringe the ’414 patent by installing tanks in an infringing configuration. The Court noted in particular that Vaughan hired a former LD employee with knowledge of the patented design, and Vaughan’s chief engineer had testified that Vaughan relied on nozzle orientations from the former LD employee. Moreover, Vaughan’s engineering manual was replete with infringing examples and was sent to customers. The Court held that this constituted circumstantial evidence that Vaughan intended for its subsequent buyers, including foreign buyers, to install systems that infringed the claims of the ’414 patent. Thus, the Court held that there was substantial evidence to support the jury’s verdict under § 271(f).

The Federal Circuit also dismissed Vaughan’s arguments that the ’414 patent should have been held invalid because the specification failed to disclose the use of reducers on the tank nozzles, which was the best mode of practicing the invention. In rejecting this argument, the Court particularly pointed to statements in the ’414 patent that suggested the use of reducers as well as evidence presented by LD that adding reducers is a routine detail that did not need to be disclosed to a person of ordinary skill in the art.

The Federal Circuit also rejected Vaughan’s argument that there was not clear and convincing evidence to support the jury’s verdict of willful infringement. The Court noted that there was a number of pieces of evidence that the jury could have relied upon to infer

copying. The Court pointed out that Vaughan’s engineering drawings were virtual duplicates of LD’s drawings, and Vaughan relied on the former LD employee to establish its nozzle angles. Although Vaughan relied heavily on its opinion of counsel, the Court noted that LD presented evidence that Vaughan’s patent counsel was not given a complete set of data and was advised that vector plots of fluid flow did not show anything of significance. The Court concluded that the “jury could use such a concealment of evidence from the attorney to discount the opinion.” *Id.* at 26.

Finally, regarding the issue of inequitable conduct, Vaughan argued that the district court committed clear error by finding that two of LD’s prior tank installations were not prior art that should have been disclosed to the patent examiner. The Federal Circuit concluded that although the district court erred in its analysis of materiality, the error was not reversible because Vaughan failed to establish that the inventors had the requisite intent to deceive the PTO. Regarding materiality, the Court explained that the district court focused on whether the prior installations actually embodied the invention, when the correct analysis asks whether a reasonable examiner would find it important. Regarding intent to deceive, the Court noted that the district court relied on evidence that the inventor did not believe the prior installations were necessary disclosures because they were not embodiments of the invention and were similar to other disclosures. Moreover, the inventor testified that he did inform the examiner of the prior tanks. The Court held that this evidence supported the district court’s analysis of intent and affirmed the finding of no inequitable conduct.

Presentation of False Evidence Alone Does Not Prevent Application of Res Judicata

Troy A. Peterson

Judges: Michel, Bryson, Dyk (author)

In *Pactiv Corp. v. Dow Chemical Co.*, No. 05-1260 (Fed. Cir. June 5, 2006), the Federal Circuit affirmed the district court’s holding that res judicata precluded the claims of Pactiv Corporation (“Pactiv”) in its DJ action for noninfringement, invalidity, and unenforceability of U.S. Patent Nos. 5,424,016 (“the ’016 patent”) and 5,586,058 (“the ’058 patent”).

In 1995, Dow Chemical Company (“Dow”) sued Pactiv for infringement of the ’016 and ’058 patents, and Pactiv asserted counterclaims of invalidity and unenforceability. The 1995 litigation was dismissed with prejudice pursuant to a joint stipulation based on settlement and license agreements. Pactiv paid royalties to Dow as required under the agreement until late 2002, when it ceased payments. In response, in early November 2003, Dow communicated to Pactiv that it was in material breach of the agreement. Pactiv responded that it would no longer pay royalties because the patents were invalid and filed a DJ action in late December 2003. Dow moved for dismissal of the DJ action under Fed. R. Civ. P. 12(b)(6), arguing that the suit was barred by res judicata (claim preclusion). The district court held that the DJ action was barred by the prior adjudication and the settlement, and that the license agreement did not preserve Pactiv’s right to future litigation. Therefore, the district court dismissed the DJ action.

“[I]f the basic legal theory has been presented and determined (by adjudication or settlement), ‘[m]ere presentation of false evidence . . . does not generally warrant relief.’”
Slip op. at 10.

On appeal, Pactiv argued (1) that an exception to the general application of claim preclusion applies because Pactiv reserved the right to challenge the ’016 and ’058 patents in the joint settlement and license agreements, and (2) that Pactiv was denied a full and fair opportunity to litigate the patents as a result of Dow’s fraudulent misrepresentations in the earlier litigation.

Applying the law of the regional circuit (the Second Circuit), the Federal Circuit affirmed the district court’s finding that the settlement and license agreements did not expressly reserve Pactiv’s right to participate in future litigation regarding the ’016 and ’058 patents. While the Federal Circuit recognized the ability of parties to make agreements that allow for the litigation of claims that would otherwise be barred by res judicata, the Court stressed that such reservation of right must be express. The Federal Circuit determined that a section of the license agreement that limited Pactiv’s obligation to pay royalties if the ’016 or ’058 patents were found invalid through any proceeding was not a reservation, let alone an express reservation, of Pactiv’s right to litigate, nor did a later

agreement define such a right. The Court concluded, therefore, that the agreement did not expressly reserve the right to litigate.

With respect to Pactiv’s argument that it was denied a full and fair opportunity to litigate the patents in the previous litigation because Dow filed an expert report, which allegedly relied on fabricated data, the Federal Circuit determined that there was no denial of a full and fair opportunity to litigate. According to the Federal Circuit, in the context of res judicata, the mere presentation of false evidence did not rise to the level of denying a full and fair opportunity to litigate. Relying on Supreme Court precedent, the Federal Circuit explained that for collateral estoppel (issue preclusion) a showing of unfairness or inadequacy in the prior proceeding could prevent later preclusion, but res judicata was precluded only where there was a denial of due process in the prior litigation. The Court noted that if Pactiv wanted to set aside the previous judgment based on fraud, its recourse would have been to file a Rule 60(b) motion in the original proceeding.

Accordingly, the Federal Circuit affirmed the decision of the district court dismissing the DJ suit.

“M2” and “M2 Communications” Marks for CD-ROMs Are Not Likely to Be Confused Where Those CD-ROMs Are Produced for Distinct Industries

Stephanie H. Bald

Judges: Mayer (author), Bryson, Prost

In *M2 Software, Inc. v. M2 Communications, Inc.*, No. 05-1599 (Fed. Cir. June 7, 2006), the Federal Circuit affirmed the decision of the Trademark Trial and Appeal Board (“TTAB”), dismissing M2 Software, Inc.’s (“M2 Software”) opposition to M2 Communications, Inc.’s (“M2 Communications”) registration of the mark M2 COMMUNICATIONS for interactive CD-ROMs containing information in the fields of health, pharmacy, and medicine.

M2 Communications filed an application to register the mark M2 COMMUNICATIONS for “[i]nteractive multimedia CD-ROMs containing educational

information in the fields of pharmaceutical and medical product information, therapies and strategies, and medical, pharmaceutical, and healthcare issues” M2 Software opposed M2 Communications’s application. M2 Software used the M2 mark before M2 Communications, and owns Registration No. 1,931,182 for the mark M2 for “[c]omputer software featuring business management applications for the film and music industries; and interactive multimedia applications for entertainment, education and information, in the nature of artists’ performances and biographical information from the film and music industries; and instructions and information for playing musical instruments.”

Based on the restriction in M2 Software’s registration (limiting use of its marks to goods in the film and music industries), and the restriction in M2 Communications’s application (limiting use of the mark to goods in the pharmaceutical and medical industries), the TTAB found that M2 Communications’s goods were not encompassed by M2 Software’s registration and the parties’ goods were unrelated. The TTAB reasoned that while both parties sell goods in the same media format (i.e., interactive CD-ROMs), that fact alone does not render them either identical or related. Rather, because the claimed industries are distinct and the registration and application identify subsets of CD-ROMs (not CD-ROMs generally), the parties’ products are different goods.

In concluding that no likelihood of confusion existed, the TTAB also relied on the findings that while “very similar,” the parties’ marks were not identical due to the additional term “COMMUNICATIONS” and that there was no overlap in the parties’ purchasers or channels of trade. M2 Software appealed.

On appeal, the Federal Circuit dismissed M2 Software’s argument that because its registration covers “interactive multimedia applications for entertainment, *education and information*,” the scope of the registration encompasses interactive multimedia software in any field. The Court found that such a reading would require it to improperly ignore language plainly limiting its registration to goods in the music and entertainment fields. The Court also found that it was proper for the TTAB to ground its decision on the relatedness in the fields for which the goods are created, rather than the media format in which they are delivered. Given the pervasiveness of software and software-related goods in society, the

Court reasoned that it would be inappropriate to presume relatedness on the mere basis of goods being delivered in the same media format, especially where the goods described are defined narrowly, along distinct industry lines.

The Federal Circuit also agreed with the TTAB’s analysis on the remaining likelihood of confusion factors. The Court found that there was no overlap in the parties’ trade channels or purchasers as neither party submitted evidence of

inherent overlap of customers or trade channels between the pharmaceutical and medical industries, on the one hand, and the music and entertainment industries, on the other. In concluding that these factors weighed heavily against M2 Software, the Court noted the difficulty of establishing a likelihood of confusion absent overlap as to either factor.

The Court likewise approved the TTAB’s finding that the marks were not identical and that the heightened protection given the M2 mark on account of its fanciful nature did not affect the finding of likelihood of confusion. Finally, the Court agreed that the intent factor did not weigh in M2 Software’s favor as M2 Communications adopted the M2 mark because it was a shorthand for “medical marketing,” and it was unaware of M2 Software’s mark at the time of adoption.

Therefore, because the unrelated nature of the parties’ goods, distinct trade channels, and purchasers outweighed the factors favoring M2 Software (i.e., the similarity of the marks and the fanciful nature of the M2 mark), the Federal Circuit affirmed the TTAB’s decision finding no likelihood of confusion.

“[G]iven the pervasiveness of software and software-related goods in society, it would be inappropriate to presume relatedness on the mere basis of goods being delivered in the same media format, especially where, as here, the goods described in both the application and registration are defined narrowly, along distinct industry lines.”
Slip op. at 7.

Genuine Issue of Material Fact as to Whether Prior Art Identified Symbols Based on Stroke Direction Renders Summary Judgment Inappropriate

Edward J. Naidich

Judges: Newman, Rader, Bryson (author)

In *Xerox Corp. v. 3Com Corp.*, No. 04-1470 (Fed. Cir. June 8, 2006), the Federal Circuit reversed and remanded a grant of SJ of invalidity for anticipation and obviousness of Xerox Corporation's ("Xerox") U.S. Patent No. 5,596,656 ("the '656 patent"), finding there to be a genuine issue of material fact as to whether the prior art identified shapes based on "stroke direction," as required by the asserted claims. The Federal Circuit also concluded that dependent claims 9 and 11 of the '656 patent were not insolubly ambiguous and thus reversed the district court's grant of SJ holding those claims invalid for indefiniteness.

The '656 patent discloses a system and method for "computerized interpretation of handwritten text." The system employs an alphabet of "unistroke symbols" that correspond to alphanumeric characters, such as Arabic numerals and the letters of the English alphabet. Xerox brought suit against 3Com Corporation and six other defendants (collectively "3Com"). Xerox alleged that the '656 patent was infringed by 3Com's "Graffiti" system for handwriting recognition, which is used with 3Com's PalmPilot handheld digital devices.

The district court granted SJ of invalidity, holding that the asserted claims were anticipated by a journal article written by D.J. Burr and a Japanese patent application by Tadahiro Nagayama. The district court also concluded that the term "sloppiness space" in asserted claims 9 and 11 was ambiguous and thus held those claims invalid for indefiniteness.

On appeal, Xerox argued that the '656 patent was not anticipated by Burr because the invention of Burr failed to definitively recognize a symbol immediately upon pen lift, which was required by the asserted claims as construed by the Federal Circuit in a prior opinion. Xerox contended that symbol recognition in Burr is not complete until after "dictionary lookup" occurs. The Federal Circuit rejected this argument

because Burr's dictionary lookup is not a step necessary for recognition of a character to occur but simply serves as a means for later determining that a particular recognition may be erroneous. Likewise, the Court found that Nagayama's "confirmation" step serves only as a means to correct errors in the recognition that has already occurred.

"While those descriptions [in the patent] are not rigorously precise, they provide adequate guidance [to construe the disputed claim term], particularly in light of the difficulty of articulating a more exact standard for the concept."

Slip op. at 23.

Next, Xerox contended that Burr did not disclose a system in which the symbols have "sufficient graphical separation to permit the computer to definitively recognize the symbol" upon pen lift, a requirement of the claims as construed by the Federal Circuit in its prior opinion. The Court rejected this argument because, having found that Burr did disclose definitive recognition of symbols upon pen lift, there must necessarily be sufficient graphical separation among those symbols to permit the computer to achieve definitive recognition.

Xerox similarly argued that Burr and Nagayama failed to disclose symbols that were accurately recognized on pen lift. The Federal Circuit rejected this argument, noting that nothing in the language of the claims or in the specification required a particular degree of accuracy for a system to qualify as producing "definitive recognition." Moreover, in a journal article published prior to the litigation, an expert for the defendants reported that Burr's invention achieved 90 percent character recognition accuracy without dictionary lookup.

Xerox further argued that Burr and Nagayama did not anticipate the '656 patent claims, because neither reference disclosed a set of reference symbols that a user would emulate. The Court found, however, that the claims did not require such reference symbols and, regardless, such reference symbols were in fact disclosed by both Burr and Nagayama.

Xerox further contended that there was a material factual dispute between the parties as to whether Burr disclosed symbols that have "spatial independence," as required by the claims. The Court dismissed this argument, finding that Burr did in fact disclose spatial

independence because Burr's system could distinguish and recognize symbols without reference to where a previous symbol was written.

Xerox also argued that Burr failed to disclose the claim limitation of "some of said unistroke symbols being linear." In particular, Xerox contended that the district court erred in concluding that Burr's T-shaped symbol was linear. The Court again dismissed this argument, noting that one dictionary definition of the term "linear" is "of or pertaining to a line or lines." Moreover, the Court noted, each time the term "linear" is used in the claims, it is used in contrast to the term "arcuate." Thus, the Court held, the term "linear" was used in the patent to denote consisting of a straight line or lines, as opposed to consisting of curves, and thus Burr's T-shaped symbol would be considered linear.

Xerox also contended that Burr did not rely on stroke direction to identify symbols, as required by the claims. On this issue, the Federal Circuit agreed that there were genuine issues of material fact. The Court concluded that a close reading of the Burr article suggested that although Burr's invention undoubtedly captures stroke direction data, it may not use that data to distinguish one symbol from another. Similarly, the Court found that although Nagayama appears to disclose the capture of directional data and subsequent shape matching, it was not clear that Nagayama distinguishes symbols based on both geometric shape and stroke direction. Consequently, the Court concluded that a genuine issue of material fact remained as to whether the Burr and Nagayama references disclose the various "stroke direction" limitations of the asserted claims of the '656 patent. The Court therefore vacated the district court's grant of SJ of invalidity for anticipation and obviousness, and remanded the case to the district court for further proceedings with particular focus on whether the Burr or Nagayama references disclose the use of stroke direction in distinguishing symbols.

The Federal Circuit then turned to the issue of indefiniteness of dependent claims 9 and 11, which required that the symbols must be "well separated from each other in sloppiness space." The district court had concluded that the claim term "sloppiness space" was ambiguous and not adequately defined in the patent. The Federal Circuit reversed, finding that the specification explicitly defines symbols that are "well separated from each other in sloppiness space" as those distinguished by substantial angular offset (e.g., at least 45 degrees and preferably 90 degrees) or directional distinction (opposing directions). The

Court noted that the specification also contrasts symbols that are well separated from each other in sloppiness space from the characters of the ordinary Roman alphabet, which are not reliably distinguishable from each other in the face of rapid or otherwise sloppy writing. The Court explained that "[w]hile those descriptions are not rigorously precise, they provide adequate guidance as to the types of symbols that are 'well separated from each other in sloppiness space,' particularly in light of the difficulty of articulating a more exact standard for the concept." Slip op. at 23. Thus, the Court held that claims 9 and 11 were not insolubly ambiguous and, therefore, not invalid for indefiniteness.

A Revised Product Design Did Not Breach Settlement Term

David M. Longo

Judges: Michel, Gajarsa, Linn (author)

In *Panduit Corp. v. HellermannTyton Corp.*, No. 05-1337 (Fed. Cir. June 12, 2006), the Federal Circuit affirmed the district court's grant of SJ in favor of HellermannTyton Corporation ("HellermannTyton") that it did not breach the provisions of a settlement agreement that ended a prior infringement suit involving Panduit Corporation's ("Panduit") U.S. Patent No. 5,998,732 ("the '732 patent").

The '732 patent relates to a "modular offset power box and communication extension" for a "multi-channel power and communication wiring and raceway system." Multichannel wiring raceway systems are typically used for installation of wires within the same duct running behind the walls of an office building. Raceway systems help provide work spaces with power outlets and phone lines to run equipment like computers, fax machines, phones, and printers. The system of routing in the '732 patent avoids interference and helps speed installation. At issue were the structural limitations of the offset power box, including "a projection" and "an opening formed in the abutment portion of the projection."

In a prior litigation in 2001, Panduit sued HellermannTyton, alleging infringement of the '732 patent by a power box that HellermannTyton was then selling under a specific part number MCR-SEB. Shortly after commencing suit, the parties entered into a settlement agreement, in which HellermannTyton

agreed not to make or sell “Subject Products.” The settlement agreement defined “Subject Products” in provision (b)(i) as the power box identified by part number MCR-SEB, and in provision (b)(ii) as “all products, existing now or in the future, covered by any claim of the [’732 patent].” In exchange, Panduit waived its claims of infringement before the date of the settlement agreement.

In 2003, Panduit sued HellermannTyton for breach of the two provisions of the settlement agreement and for infringement of the ’732 patent based on HellermannTyton’s sale of a product having a “revised design.” The only difference between the two designs was that the previous design (of part number MCR-SEB) had a cutaway in a wall abutting a trunking duct, while the revised design had a solid wall with no cutaway. In 2004, the district court stayed litigation of the infringement claim pending the outcome of a reexamination proceeding at the PTO; however, it allowed the breach of contract claim to proceed.

In 2005, the district court granted SJ in favor of HellermannTyton on the contract claim, finding that (1) the accused device (having the revised design) was not the same as the previous design and, therefore, was not covered under provision (b)(i) of the settlement agreement; and (2) that the accused device did not infringe the ’732 patent, either literally or under the DOE, and, therefore, did not breach provision (b)(ii) of the settlement agreement.

On appeal, in addressing the standard of review, the Federal Circuit applied the law of the Seventh Circuit in reviewing the district court’s grant of SJ de novo, noting that “interpretation of a settlement agreement is not an issue unique to patent law, even if arising in the context of a patent infringement suit.” Slip op. at 7 (citation omitted). In addition, the Federal Circuit applied Illinois law in interpreting the settlement agreement de novo, noting that “[c]ontract interpretation is ordinarily governed by state law,” and that the settlement agreement specifically provided that Illinois law governed interpretation. *Id.* at 8.

In order to determine whether there was a breach of the settlement agreement, the Court assessed whether HellermannTyton’s revised design product infringed the ’732 patent. Regarding provision (b)(ii) of the settlement agreement, the Federal Circuit agreed with the district court’s determination that the provision clearly and unambiguously defined a specific product, namely the power box identified by part number MCR-SEB, and the accused product was not the specified product. The Court noted that its “inquiry is

not a comparison between an accused and an adjudged device, but rather the interpretation of that express provision” of the settlement agreement. *Id.* at 10. Illinois law recognizes that the plain language of a contract governs when the language is unambiguous. Here, the Federal Circuit determined that the language of the settlement agreement was unambiguous and refused to consider Panduit’s intent to include terms not explicitly in the agreement. Finally, the Court agreed with the district court’s determination that there is no genuine issue of material fact that the accused device is not the power box identified in the settlement agreement by part number MCR-SEB.

Regarding provision (b)(ii) of the settlement agreement, the Federal Circuit agreed with the district court’s holding as a matter of law that the accused device, having the revised design, did not infringe the ’732 patent because it was missing at least the

“opening” limitation. In construing the claim limitation, the Court looked to two recitations in the claim language and determined that the claim language was consistent with the written description and prosecution history. After construing the claim term, the Federal Circuit agreed with the district court’s determination that there is no genuine issue of material fact that the accused device does not literally infringe the ’732 patent because it lacks the “opening” limitation.

Furthermore, the Federal Circuit noted that the DOE cannot be applied in this case because the DOE is limited by the “all elements rule.” The “all elements rule” provides that “the [DOE] does not apply if applying the doctrine would vitiate an entire claim limitation.” *Id.* at 17 (citations omitted). Because claim 1 of the ’732 patent requires an “opening” in an “abutment portion” through which wires may pass, the Court rejected Panduit’s argument to extend the scope of the claim to encompass an accused device in which wires bypass the “abutment portion” altogether, which would necessarily read the “opening” limitation out of the claim.

Thus, the Court concluded that the accused device did not infringe claim 1 of the ’732 patent and upheld the district court’s grant of SJ of no breach of provision (b)(ii).

“Settlement agreements, like consent judgments, reflect an agreement by hostile litigants on more than just contract terms; they reflect a compromise of contested legal positions in matters that are the subject of litigation.”
Slip op. at 11.

Prosecution History Estoppel Does Not Preclude Application of the Doctrine of Equivalents

Joyce Craig-Rient

Judges: Newman, Lourie (author), Prost

In *Primos, Inc. v. Hunter's Specialties, Inc.*, Nos. 05-1001, -1376 (Fed. Cir. June 14, 2006), the Federal Circuit affirmed a district court's judgment of literal infringement of U.S. Patent No. 5,520,567 ("the '567 patent") and infringement of U.S. Patent No. 5,415,578 ("the '578 patent") under the DOE.

The two patents-in-suit disclose an apparatus that hunters use to simulate animal sounds. The patented "mouth call" device consists of a frame, a membrane that vibrates to produce sound, and a plate extending above the membrane. The mouth call is placed within the user's mouth and held in place by the user's tongue. The user then forces air through a gap between his or her tongue and the membrane, causing the membrane to vibrate and emit a sound that replicates the call of an animal.

Primos, Inc. ("Primos") alleged that Hunter's Specialties, Inc.'s ("Hunter's Specialties") "Tone Trough" product infringes the patents-in-suit. The accused Tone Trough device is a mouth call device that has a dome instead of a plate extending above the membrane. At trial, a jury found that the Tone Trough device literally infringed the '567 patent, and infringed the '578 patent under the DOE.

On appeal, the question of literal infringement of the '567 patent hinged on the district court's construction of the claim term "engaging." The Federal Circuit agreed with the district court's construction of "engaging" to mean "to come into contact with," and rejected Hunter's Specialties's argument that the term meant "sealing" or "interlocking." The Court pointed out that the terms "engaging" and "sealing" are both expressly recited in the asserted claim and therefore "engaging" cannot mean the same as "sealing," or else one of the terms would be superfluous. Furthermore, a figure in the patent showed a plate of the device touching the roof of the mouth but not having an interlocking relationship, thus supporting the district court's construction of "engaging" to mean "to come into contact with." The Court explained that it does not normally interpret a claim term to exclude a preferred embodiment.

Hunter's Specialties further argued that prosecution history estoppel bars application of the DOE to the claim term "plate" because amendments to the term narrowed the scope of the claim and were made for reasons relating to patentability. The Federal Circuit noted that during prosecution, the claim term "plate" was amended in two ways: (1) by requiring that it have a "length," and (2) by adding the limitation that the plate be "differentially spaced" above the membrane. Citing the Supreme Court's decision in *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722, 740 (2003), the Federal Circuit observed that "when a patent claim is amended during prosecution for reasons relating to patentability, there is a presumption that the patentee surrendered all the territory between the original claim limitation and the amended claim limitation." Slip op. at 12. The Court noted, however, that this presumption may be overcome when the "rationale underlying the amendment may bear no more than a tangential relation to the equivalent in question." *Id.*

With regard to the claim amendments, the Federal Circuit concluded that the addition of the term "length" did not narrow the scope of the claim because every physical object has a length. Further, the Court concluded that the "differentially spaced" limitation did narrow the claim and, thus, Primos surrendered plates that are not differentially spaced above the membrane. The Court found, however, that the dome in the accused Tone Trough device is differentially spaced above the membrane. Because it found that the Tone Trough device included the spacing, the Court concluded that the amendment was merely tangential to the contested element in the accused device and, accordingly, prosecution history estoppel did not prevent the application of the DOE.

"Because the accused device's dome includes the spacing, the amendment was merely tangential to the contested element in the accused device, and thus prosecution history estoppel does not apply to prevent the application of the doctrine of equivalents." Slip op. at 13.

Hunter's Specialties also argued that substituting the accused dome for the "plate" in claim 2 would vitiate the "plate" limitation, in violation of the "all limitations rule." The Federal Circuit noted that the "all limitations rule" bars a finding of infringement under the DOE if such a finding would vitiate a particular claim element. After assessing the totality of the circumstances, the Court concluded that the equivalence would not entirely eliminate the "plate"

limitation and, thus, was not barred by the “all limitations rule.”

The Federal Circuit next found that the district court did not abuse its discretion in excluding from evidence a prior art device that was identified shortly before trial began and after discovery had closed. Lastly, the Court rejected Hunter’s Specialties’s assertion that it was unfairly prejudiced by an instruction to the jury that it could draw an adverse inference from an opinion withheld due to the assertion of the attorney-client privilege by another defendant in the case. Although agreeing that the instruction was erroneous, the Court found that the adverse-inference jury instruction did not prejudice Hunter’s Specialties because the instruction did not apply to Hunter’s Specialties but only to the defendant who asserted the attorney-client privilege.

Preliminary Injunction Should Not Issue Where Substantial Questions of Validity Exist

Scott M. K. Lee

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

In *Abbott Laboratories v. Andrx Pharmaceuticals, Inc.*, No. 05-1433 (Fed. Cir. June 22, 2006), the Federal Circuit vacated the preliminary injunction (“PI”) issued by the district court, finding that the defendant Teva Pharmaceuticals USA, Inc. (“Teva”) had raised substantial issues concerning the validity of each of the asserted patent claims.

Abbott Laboratories (“Abbott”) sued Andrx Pharmaceuticals, Inc., Roxane Laboratories, Inc., and Teva, alleging infringement of its patents relating to extended release (“ER”) formulations of the antibiotic clarithromycin. Clarithromycin is a broad spectrum antibiotic from the macrolide family of antibiotics, all of which are derived from erythromycin A. Abbott licensed the patent for clarithromycin and, in 1991, introduced Biaxin, an immediate release (“IR”) formulation of clarithromycin. In 1997, Abbott filed a patent application directed to an ER formulation of clarithromycin, comprising erythromycin derivatives combined with a pharmaceutically acceptable polymer. The ER formulation enables patients to take a pill once per day rather than twice, as had been required with the IR formulation. That application

issued on January 4, 2000, as U.S. Patent No. 6,010,718 (“the ’718 patent”). U.S. Patent No. 6,551,616 (“the ’616 patent”) issued from a CIP application, claiming a method of reducing adverse gastrointestinal (“GI”) side effects of erythromycin-derived drug formulations by using ER formulations.

Abbott introduced its ER clarithromycin formulation, Biaxin XL, in 2000. In 2002, Teva filed an ANDA, seeking approval to market an ER formulation of clarithromycin similar to Biaxin XL. In 2005, Abbott sued Teva for infringement of claims 2, 4, and 6 of the ’718 patent and claim 2 of the ’616 patent, and moved for a PI against Teva. Teva responded, conceding infringement of the patents, but alleging that the asserted patent claims are invalid for obviousness under 35 U.S.C. § 103 and, therefore, Abbott could not establish a likelihood of success on the merits as necessary for issuance of a PI.

The district court found that Teva had raised a substantial question concerning the validity of claim 2 of the ’616 patent but had not done so with respect to claims 2, 4, and 6 of the ’718 patent. Further concluding that Abbott would suffer irreparable harm absent a PI, that the balance of hardships favored Abbott, and that the public interest was best served by enforcing the ’718 patent, the district court issued a PI enjoining Teva.

On appeal, Teva argued that the district court erred in finding that Abbott had demonstrated Teva’s invalidity defense to claims 2, 4, and 6 of the ’718 patent lacked substantial merit, and in finding that Abbott had established that it would suffer irreparable harm if Teva were not enjoined. Abbott countered that it made a clear showing of a likelihood of success on the merits regarding claims 2, 4, and 6 of the ’718 patent, and as such, it was entitled to the presumption that it would suffer irreparable harm absent the PI. Abbott also argued for affirmation of the PI on the alternate ground that Teva failed to raise a substantial challenge to the validity of claim 2 of the ’616 patent.

The Federal Circuit began its analysis by stating that Abbott had the burden to establish its right to a PI by showing that (1) it was likely to succeed on the merits of the underlying litigation, (2) it would suffer immediate irreparable harm absent a PI, (3) the balance of hardships to the parties weighed in Abbott’s favor, and (4) the public interest would be best served by granting the PI. Then the Court addressed whether Abbott carried its burden of showing a likelihood of success. The Court observed that validity challenges during PI proceedings require less proof than is

necessary to support a judgment of invalidity at trial and the patentee must present a clear case supporting the validity of its patents.

“[A] likelihood of success on the merits is not found where there exists a substantial question of validity.” Slip. op. at 7 n.2.

The Federal Circuit began with the obviousness contentions regarding claims 2 and 4 of the ’718 patent, directed to pharmaceutical compositions for ER of an erythromycin derivative. The claims have three basic elements: an erythromycin derivative, a polymer, and certain pharmacokinetic parameters. The Court looked to U.S. Patent No. 5,705,190 (“the ’190 patent”), an Abbott patent, for the disclosure of ER formulations of clarithromycin with a polymer different from the polymers used in the ’718 patent claims and noted that the ’190 patent composition “arguably” has the pharmacokinetic parameters of the ’718 patent claims. The Court also looked to WO 95/30422 (“the ’422 publication”) for disclosure of an ER formulation of azithromycin with HPMC, the polymer in the ’718 patent claims. The Federal Circuit observed that claims 4 and 14 of the ’190 patent cover compositions that include azithromycin or clarithromycin, even though the specification only explicitly describes compositions made from clarithromycin. The Court explained that by disclosing only clarithromycin ER compositions in the specification, yet claiming azithromycin compositions, Abbott had represented to the PTO that “the differences between clarithromycin and azithromycin were such that azithromycin could be substituted into a controlled release clarithromycin composition by a person of ordinary skill in the art without undue experimentation.” Slip. op. at 18. Therefore, there existed a substantial argument that one of skill in the art would combine the polymers of the ’422 publication and compositions of the ’190 patent with a reasonable expectation of success. The Court concluded, therefore, that Teva had raised a substantial question of validity against claims 2 and 4 of the ’718 patent and Abbott had not carried its burden.

The Federal Circuit then turned to the defense of obviousness regarding claim 6 of the ’718 patent, which is directed to an ER composition comprising an erythromycin derivative and having an improved taste profile, and claim 2 of the ’616 patent, which is directed to a method of reducing GI adverse side effects from erythromycin derivatives by administering an ER composition. The Court

explained that, in view of the analysis of claims 2 and 4 of the ’718 patent, the validity of those claims likely depended on the additional limitations relating to improved side effects. As such, Abbott had to present evidence of unexpected results over the closest prior art. The Court stated, however, that the prior art and Abbott’s own statements indicated that a reduction in side effects would not have been unexpected. Therefore, the Court held that Teva raised a substantial question regarding the validity of claims 2 and 6, and the district court was correct in its finding regarding claim 2.

Thus, the Court held that because Teva raised a substantial question of validity with respect to each claim, Abbott had not established a likelihood of success on the merits for the PI.

Turning the irreparable harm factor, the Federal Circuit noted that Abbott was no longer entitled to a presumption of irreparable harm because it did not establish a likelihood of success. Additionally, though the district court agreed with Abbott’s economic arguments establishing harm and concluded that “entry of the generic extended release formulation competitor will likely crush the market,” the Court rejected Abbott’s arguments. *Id.* at 29. Abbott argued that the “sharp economic consequences of open competition from generic drugs establish the inadequacy of monetary damages and irreparable harm.” *Id.* The Court noted that

if this court were to accept a patentee’s “arguments that, ‘apart from the presumption,’ its ‘potential lost sales’ alone demonstrate ‘manifest irreparable harm’, acceptance of that position would require a finding of irreparable harm to every manufacturer/patentee, regardless of circumstances.”

Id. (citations omitted).

The Court also noted, however, that “Teva has not proven that monetary damages will suffice.” *Id.* The Court concluded:

Therefore, where a patentee has not shown a likelihood of success on the merits, and where the patentee has not clearly established that monetary damages could not suffice but the defendant has not established that monetary damages do suffice, we cannot say that the irreparable harm prong of the analysis favors either party.

Id. at 30.

Because Teva did not appeal the district court's determination that the balance of hardships favored Abbott, the Federal Circuit affirmed the district court's determination in that regard. Finally, as to the public interest factor, the Federal Circuit agreed with the district court that the public is best served by enforcing patents that are likely valid and infringed. However, because the Court concluded that Abbott did not establish a likelihood of success on the merits, it disagreed with the district court on that factor, concluding that the public interest is best served by denying the PI. As a result of those considerations, the Court vacated the PI.

Judge Newman dissented from the decision, stating that the majority incorrectly rejected "the requirement that in determining the likelihood that the patent will be proved invalid it is necessary to consider the burdens of proof that would inhere at trial." Dissent at 3. However, even if Teva had made a substantial argument of invalidity, Judge Newman did not feel abuse of discretion by the district court was shown.

Statement Contradicting Earlier Sworn Statement Supports Vacatur of Summary Judgment

Darrell N. Fuller

Judges: Newman (author), Mayer, Schall

In *Gemmy Industries Corp. v. Chrisha Creations Ltd.*, No. 05-1110 (Fed. Cir. June 22, 2006), the Federal Circuit vacated the district court's SJ of invalidity based on an on-sale bar.

Gemmy Industries Corporation ("Gemmy") obtained U.S. Patent No. 6,644,843 ("the '843 patent") directed to an inflatable decorative holiday figure with internal lighting. The patent application was filed on January 9, 2002. It is undisputed that Gemmy showed prototype Halloween and Christmas figures to potential customers in Hong Kong in October 2000. The prototypes were inflated by a hair dryer through a tube, whereas the patent claims require a fan mounted inside the base. Additionally, approximately thirty retailers viewed the prototypes and had access to "quote sheets" that included an estimated price, measurements, and sometimes the weight of the product, but no orders were taken at this time.

Gemmy sent the first commercial shipments in May 2001.

In October 2003, after the '843 patent was allowed, Gemmy filed suit against Chrisha Creations Ltd. ("Chrisha") in federal court in Kansas, asserting trade secret violation, copyright infringement, and other commercial torts. In that action, Gemmy's president, Dan Flaherty, asserted by affidavit that "Gemmy has been selling its Airblown Inflatable product line since at least October 2000." Slip op. at 5-6. Upon issuance of the '843 patent, Chrisha sued Gemmy in the U.S. District Court for the Southern District of New York seeking DJ of noninfringement and invalidity, and charging other claims. Shortly thereafter, Gemmy amended the complaint in Kansas to include a claim for patent infringement.

"[T]he undisputed evidence that the product displayed was not the patented invention removes these events from meeting the requirement of *Pfaff*, . . . , that the patented invention must be 'fully disclosed' in the product that was on sale." Slip op. at 11.

Upon Chrisha's motion, the Kansas case was transferred to the Southern District of New York and the two suits were consolidated. Chrisha also moved for SJ of invalidity based on Mr. Flaherty's admission of sales. After consolidation, Mr. Flaherty modified his earlier statements to assert that "Gemmy never intended to nor did it anticipate shipping the prototypes with the hair dryers" and the Hong Kong prototypes underwent several structural changes before a commercial product was available for sale. *Id.* at 6. Mr. Flaherty's testimony was corroborated by other testimony and photographs. Despite its acceptance of Gemmy's position regarding the structure of the prototype and that no sales orders were taken, the district court held on SJ that the '843 patent was invalid for violation of the on-sale bar, finding that the product was on sale in October 2000. In addition, Chrisha sought, and the district court granted, a preliminary injunction on false marking and false advertising claims, which required Gemmy to stop selling products marked with the '843 patent number. Gemmy then sought an interlocutory appeal of the grant of SJ of invalidity.

On appeal, the Federal Circuit first analyzed whether the invention was ready for patenting when offered for sale. Gemmy argued that the prototype shown in Hong Kong was not ready for patenting because it was inflated by a hair dryer, not the base fan required by the claims, which Mr. Flaherty's corrected statement supported. The Federal Circuit agreed, explaining that the district court's determination that the prototype was ready for patenting could not be reconciled while accepting Mr. Flaherty's statements and findings that the prototype did not have a fan unit. Furthermore, the Court explained that, regardless of whether Mr. Flaherty's statements were true, the product offered for sale must be the product claimed in the '843 patent.

Next, the Federal Circuit reviewed whether the product was the subject of a commercial offer for sale in this country before the critical date. Gemmy argued that the "quote sheets" distributed in Hong Kong were mere preparation to place the product on sale and lacked key terms that typically accompany the sale of goods. Chrisha, on the other hand, argued that the purpose of the displays in Hong Kong was to solicit orders—and orders must have been taken because deliveries were made in May—and alleged that Gemmy refused discovery of its relevant documents.

The Federal Circuit vacated and remanded the district court's SJ ruling of invalidity. Further, the Federal Circuit instructed the district court to reassess the injunction directed to patent marking in light of the vacatur.

Narrow Written Description Limits Broad Claim Term Despite Broad Statement in Prosecution

Milan S. Kapadia

Judges: Mayer, Lourie (author), Dyk

In *Honeywell International, Inc. v. ITT Industries, Inc.*, No. 05-1407 (Fed. Cir. June 22, 2006), the Federal Circuit affirmed the district court's grant of SJ of noninfringement to ITT Industries, Inc.; ITT Automotive, Inc.; TG North America Corporation; TG Fluid Systems USA Corporation; and A. Raymond, Inc. (collectively "ITT/TG").

The patent-in-suit, U.S. Patent No. 5,164,879 ("the '879 patent"), describes a fuel injection system component for communicating fuel to the engine of a motor vehicle. The '879 patent addresses a problem wherein fuel filters made of polymer began to break down and started leaking when motor vehicles began using electronic fuel injection systems. The patented invention solves this problem by providing an electrically conductive pathway between the fuel filter and the vehicle's metal frame.

Honeywell International, Inc. and Honeywell Intellectual Properties, Inc. (collectively "Honeywell") sued ITT/TG for infringement of the '879 patent. The products accused of infringement were "quick connect" structures that join the various components of a fuel injection system together, such as a fuel line to a fuel filter. After construing the claims, the district court granted ITT/TG's motion for SJ of noninfringement.

On appeal, the Federal Circuit rejected Honeywell's argument that the district court improperly imported a limitation from the specification into the claims by construing "fuel injection system

"Where, as here, the written description clearly identifies what [an] invention is, an expression by a patentee during prosecution that he intends his claims to cover more than what his specification discloses is entitled to little weight." Slip op. at 12.

component" to be limited to a fuel filter. The Court held that the written description leads to the conclusion that a fuel filter is the only "fuel injection system component" that the claims cover, and that a fuel filter was not merely discussed as a preferred embodiment, as Honeywell argued. The Court pointed out that at least on four occasions, the written description referred to the fuel filter as "this invention" or "the present invention." The Court explained that "[t]he public is entitled to take the patentee at his word and the word was that the invention is a fuel filter." Slip op. at 11. The Court also noted that the written description did not indicate that a fuel filter is merely a preferred embodiment because the fuel filter was the only component that the written description discloses as having a polymer housing as claimed.

Nor was the Court persuaded by the patentee's response to an indefiniteness rejection during prosecution in which he stated that the claims cover

“all fuel components.” *Id.* The Court concluded that the statement was ambiguous and, regardless, such a broad and vague statement in the prosecution history could not contradict the clear statements in the specification describing the invention more narrowly. Furthermore, the Court reasoned that where the written description clearly identifies what his invention is, an expression by a patentee during prosecution that he intends his claims to cover more than what his specification discloses is entitled to little weight.

The Court also did not assign much weight to the patent examiner’s restriction requirement with respect to claims for a “fuel filter” and a “fuel system component” during prosecution of a related application. The Court concluded that in making the requirement, the examiner did not construe the claim term “fuel system component” or determine its meaning in light of the written description, but merely required election of one aspect of the invention for prosecution without applying it to the specification.

The Court, however, disagreed with the district court’s construction of the claim term “electrically conductive fibers” to the extent that it encompassed carbon fibers. The Court reasoned that, even though it was true that the written description did not expressly define “electrically conductive fibers” as it did for “fuel injection system component,” the written description disavowed carbon fibers from the scope of the ’879 patent because it demeaned the properties of carbon fibers. The Court noted that by listing all the reasons that metal fibers fare better than carbon fibers for use in the claimed invention, the patentee informed its readers specifically why carbon fibers would not be suitable as “electrically conductive fibers” in the claimed invention. The Court reasoned that contrary to the district court’s understanding, the written description went beyond expressing the patentee’s preference for one material over another.

The Court also affirmed the district court’s conclusion of noninfringement under the DOE as a matter of law. The Court explained that once it construed the fuel system component to be a fuel filter, the fuel filter became central to the patented invention. The Court concluded that if one utilized the conventional function/way/result analysis, it was beyond question that the accused quick connects did not perform the function of a fuel filter. Further, the Court reasoned that there could be no infringement under the DOE because the quick connect uses carbon fibers, and such fibers were disavowed from the scope of the “electrically conductive fibers” limitation.

Court Has Discretion to Decide Issue of Inequitable Conduct Prior to Jury Trial on Invalidity

Reece W. Nienstadt

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

In *Agfa Corp. v. Creo Products Inc.*, No. 05-1079 (Fed. Cir. June 26, 2006), the Federal Circuit affirmed the district court’s holding that Agfa Corporation’s (“Agfa”) asserted patents are unenforceable for inequitable conduct, granted Creo Products Inc.’s (“Creo”) request that inequitable conduct be tried to the court prior to a jury trial on other issues, and awarded Creo its attorneys’ fees.

Agfa owns six patents directed to various features of a “computer-to-plate” (CTP) system, which takes a desired image, including written and/or graphic content, and transfers that image directly from a computer onto a printing plate for large-scale printing. The patents teach improvements to CTP automation by facilitating the creation of multiple plates of different sizes.

Agfa sued Creo, alleging that Creo’s CTP system infringed Agfa’s six patents. As a defense and counterclaim, Creo asserted that Agfa engaged in inequitable conduct before the PTO by failing to disclose several prior art systems, thereby rendering Agfa’s patents unenforceable. The district court severed the inequitable conduct issue, conducted a bench trial on that issue, and declared Agfa’s patents unenforceable. The district court also awarded attorneys’ fees under 35 U.S.C. § 285 because Agfa’s inequitable conduct rendered the case exceptional.

The Federal Circuit affirmed the district court’s decision to sever the inequitable conduct issue for a bench trial while postponing for later, if necessary, a jury trial on infringement and invalidity. The Court explained that the case was “almost indistinguishable” from *Gardco Manufacturing, Inc. v. Herst Lighting Co.*, 820 F.2d 1209 (Fed. Cir. 1987), slip op. at 6, and applied *Gardco*’s reasoning to the present facts. Stating its position as consistent with *Beacon Theatres, Inc. v. Westover*, 359 U.S. 500 (1959), the Court reasoned that the issues of inequitable conduct and validity in the present case do not constitute “common” issues such that a request for jury trial must be honored. While certain factual aspects “overlapped” in the consideration of inequitable

conduct and validity, the Court emphasized that such overlapping factual aspects do not suffice to render the issues “common.” For example, inequitable conduct may render unenforceable an otherwise valid patent. Furthermore, materiality and validity do not present common issues because of the broad “reasonable examiner” standard for materiality. Thus, the Federal Circuit concluded that the issues of inequitable conduct and validity lack commonality and the right to a jury trial, therefore, does not attach to the issue of inequitable conduct.

The Federal Circuit also dismissed Agfa’s contention that *Gardco* conflicts with dictum in a footnote in *In re Lockwood*, 50 F.3d 966 (Fed. Cir. 1995), *vacated*, 515 U.S. 1182 (1995), which suggests that inequitable conduct is analogous to a writ of *scire facias* and, therefore, requires a jury trial. The Court reasoned that the writ is not a historic analog to inequitable conduct that would trigger a Seventh Amendment right to a jury trial and maintained that the Court has consistently treated inequitable conduct as an equitable defense that may be adjudicated without a jury.

A primary challenge by Agfa to the district court’s inequitable conduct ruling was that the court incorrectly construed the claims, which, if properly construed, would have lessened the materiality of the nondisclosed prior art. In construing the asserted claims, the Federal Circuit agreed with the district court’s understanding of the term “stack” to encompass “a number of plates arranged together in an orderly fashion,” regardless of whether the plates are arranged in a horizontal or vertical orientation. The Court stated that the district court correctly relied on the ordinary meaning of the term in reasoning that a stack tilted more than 45 degrees remains a stack and the dependent claims further limiting the stack to horizontally oriented plates support this construction. In addition, although the specifications of the patents depict horizontal orientation as the preferred embodiment, the Court found nothing in the intrinsic record that would support limiting the claimed invention to that particular embodiment.

With respect to the first element of inequitable conduct, the Federal Circuit affirmed the trial court’s finding that Agfa withheld material information from the PTO. The district court correctly held that prior art CTP systems, patents, and brochures, taken alone or in combination, establish a *prima facie* case of unpatentability for claims in each of Agfa’s asserted patents. Moreover, the district court also correctly

held that the undisclosed prior art is inconsistent with Agfa’s position during examination, finding that had the art been disclosed, the patentee could not have made the arguments it did to distinguish the invention from the cited art. Each of these independent bases constitutes a failure to disclose material information to the PTO.

With regard to the second element, the Federal Circuit also affirmed the district court’s finding of culpable intent by Agfa. Agfa had particular familiarity with Creo’s prior art product and knew of other CTP prior art. The Court explained that the district court relied on Agfa’s substantial documentation and internal discussion of the prior art in the design and creation of its system. Agfa’s extensive knowledge of the undisclosed art, which was inconsistent with patentability arguments made to the PTO, supports an inference of intent to deceive. The Federal Circuit also affirmed the district court’s finding that Agfa appreciated the materiality of the undisclosed references despite their contention that, under Agfa’s claim construction, the prior art was not material. The Court emphasized that materiality does not coincide with anticipation, but instead embraces the broader concept of patentability.

Finally, while the Federal Circuit acknowledged that the district court did not do an “express and detailed” balancing of materiality and intent, *id.* at 21, the district court found high levels of materiality and intent, which the Court held were sufficient to establish inequitable conduct. Additionally, because the Court affirmed the district court’s decision, the Court also affirmed the award of attorneys’ fees.

Judge Newman dissented, contending that the materiality and intent elements of inequitable conduct are “quintessential questions of fact, and have been tried to a jury throughout the nation’s history.” Dissent at 1. Judge Newman argued that under common law, whether a patent was obtained upon “false suggestion” was tried to a jury and this right was carried into modern U.S. cases. Judge Newman contended that issues of fraud, deception, and intent are traditional jury questions.

With regard to the Court’s claim construction, Judge Newman disagreed that the term “stack” includes the embodiment in which the plates are vertically oriented as in the prior art because “when the plates are lined up in parallel there is no longer a ‘top’ plate, for the plates are no longer ‘stacked.’” *Id.* at 9.

Abbreviations | Acronyms

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

Looking Ahead

- As reported in last month's issue, on June 26, 2006, the Supreme Court granted certiorari in *KSR International Co. v. Teleflex, Inc.*, No. 04-1350, to address the test for obviousness. The briefing schedule has now been set, with KSR International Company's brief on the merits due August 22, 2006, and Teleflex, Inc.'s responsive brief due October 16, 2006.
- Additionally, the Supreme Court is scheduled to hear oral arguments in *MedImmune, Inc. v. Genentech, Inc.*, No. 05-608, on October 4, 2006. The Supreme Court will consider whether licensees in good standing may challenge the validity of the licensed patents.

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Last Month at the Federal Circuit



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