

FINNEGAN

LAST MONTH AT THE FEDERAL CIRCUIT

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SPOTLIGHT INFO:

In *In re TS Tech USA Corp.*, No. 09-M888 (Fed. Cir. Dec. 29, 2008), the Federal Circuit, applying Fifth Circuit law, held that the district court had abused its discretion in denying defendants' motion to transfer the case from the U.S. District Court for the Eastern District of Texas to the Southern District of Ohio. The Court held that the district court made four key errors. First, the district court gave too much weight to Lear Corporation's choice of venue when Fifth Circuit precedent clearly forbids treating the plaintiff's choice of venue as a distinct factor in the transfer analysis. Second, the district court ignored Fifth Circuit precedent in assessing the cost of attendance for the witnesses. Third, the district court erred by concluding the factor regarding the relative ease of access to sources of proof was neutral as to transfer. Lastly, the district court erred by disregarding Fifth Circuit precedent in analyzing the public interest in having localized interests decided at home. Accordingly, the Federal Circuit held that TS Tech USA Corporation had demonstrated a clear and undisputable right to a writ of mandamus directing the district court to transfer the case. See full summary below.

Patentee's Breach of Duty to Disclose IP to SSO Waived Patent Rights Against Products Complying with the Standard

John M. Mulcahy

Judges: Mayer, Lourie, Prost (author)

[Appealed from S.D. Cal., Senior Judge Brewster]

In *Qualcomm Inc. v. Broadcom Corp.*, Nos. 07-1545, 08-1162 (Fed. Cir. Dec. 1, 2008), the Federal Circuit affirmed the district court's determinations that Qualcomm Incorporated ("Qualcomm") breached its duty to disclose asserted U.S. Patent Nos. 5,452,104 ("the '104 patent") and 5,576,767 ("the '767 patent") to a standards-setting organization ("SSO") in which it had participated, and that Qualcomm's breach of its duty to the SSO and its misconduct in concealing its participation in the SSO up until the final days of trial made the case "exceptional" under 35 U.S.C. § 285. The Federal Circuit, however, vacated the district court's holding that Qualcomm's breach rendered the asserted patents unenforceable against the world and remanded with instructions to limit the scope of the unenforceability judgment to products that comply with the particular standard developed by the SSO.

Qualcomm claimed that the '104 and '767 patents covered the H.264 video compression standard developed by the Joint Video Team ("JVT") SSO and that Broadcom Corporation ("Broadcom") infringed Qualcomm's patents by making products compliant with the standard. Under the policies of the JVT and its parent SSO, participants had certain obligations with respect to the disclosure of IP rights related to the standard. Up until the final days of trial, Qualcomm maintained that the disclosure obligations did not apply to Qualcomm because it had not participated in the JVT prior to the adoption of H.264. During trial, however, it came out that, although Qualcomm never made a technical proposal to the JVT, Qualcomm had indeed participated in the JVT prior to adoption. Qualcomm and certain of its attorneys were sanctioned for concealing documents and misrepresenting facts related to its participation in the JVT.

The district court found that the '104 and '767 patents were not invalid, but also not infringed by Broadcom. Based on the evidence of Qualcomm's participation in the JVT, the district court further found that Qualcomm had breached its duty to disclose the '104 and '767 patents to the JVT. As a remedy, the district court ordered the '104 and '767 patents (and related patents) unenforceable against the world. Based on Qualcomm's "bad faith participation" in the JVT and its litigation misconduct in failing to disclose its participation in the JVT, the district court awarded Broadcom its attorneys' fees under 35 U.S.C. § 285.

On appeal, the Federal Circuit found that the “threshold dispute” was whether the JVT’s policies imposed any disclosure duty on participants, like Qualcomm, who did not submit a technical proposal to the JVT. The Court first examined whether written JVT policies imposed any such disclosure obligations. The Federal Circuit disagreed with the district court, which had found that the written policies did not impose such a duty. The Court instead agreed with Broadcom that the JVT’s written policies required participants to use “best efforts” to disclose their IP rights, regardless of whether they submitted a technical proposal. The Court further found that the written policies of the JVT’s parent organization required all participants to identify patents “embodied fully or partly” in a standard under consideration.

“[A] district court may in appropriate circumstances order patents unenforceable as a result of silence in the face of an SSO disclosure duty, as long as the scope of the district court’s unenforceability remedy is properly limited in relation to the underlying breach.” Slip op. at 35.

Moreover, to the extent the written policies were ambiguous, the Court agreed with the district court’s determination that participants had treated the JVT policies as imposing a duty to disclose on all participants. Therefore, even if the SSO’s written policies were themselves ambiguous, “[the] conclusion as to the disclosure obligations of JVT participants would nonetheless be the same . . . because the language of the [written] policies coupled with the district court’s unassailable findings and conclusions as to the JVT participants’ understanding of the policies further establishes that the policies imposed disclosure duties on participants (apart from the submission of technical proposals).” Slip op. at 16.

Having concluded that Qualcomm owed a duty of disclosure to the JVT, the Court next examined the scope of that duty. The written JVT disclosure policies referred to IP “associated with” any standardization proposal or “affecting the use” of JVT work. Following the reasoning in *Rambus Inc. v. Infineon Technologies AG*, 318 F.3d 1081, 1096 (Fed. Cir. 2003), the Federal Circuit agreed with the district court that the JVT policy was properly construed as requiring participants to disclose patents that “reasonably might be necessary” to practice the standard. The Court, however, rejected Qualcomm’s attempt to characterize the *Rambus* standard to mean that “it must be reasonably clear at the time that the patent or application would actually be necessary to practice the standard.” Slip op. at 19 (quoting Appellant’s Reply Br. 20). Instead, the Court clarified that the *Rambus* standard is an objective one, and applies “when a reasonable competitor would not expect to practice the . . . standard without a license under the undisclosed claims.” *Id.* at 20.

The Court next addressed the question of whether Qualcomm breached its duty to the JVT. The Court noted that it was undisputed that Qualcomm did not disclose the ‘104 and ‘767 patents to the JVT prior to the release of the standard. Qualcomm argued that the finding of noninfringement with respect to Broadcom’s H.264-compliant products precluded any finding that the patents “reasonably might be necessary” to practice the standard. The Court, however, found this argument to be impossible to reconcile with Qualcomm’s complaint accusing Broadcom’s products of infringing solely because they practiced the standard. The Court further noted that Qualcomm admitted that it had not presented evidence that it made any efforts to disclose patents associated with the H.264 standard prior to its release, “much less best efforts” as required by the JVT policies. The Court concluded that the district court did not err in finding that Qualcomm breached its disclosure duty by failing to disclose the ‘104 and ‘767 patents to the JVT prior to the release of the H.264 standard.

Turning to the consequences of Qualcomm's breach, the Court agreed with Qualcomm that its JVT misconduct did not amount to "true waiver," i.e., the intentional relinquishment of a known right. "[R]ather than establishing that Qualcomm intentionally relinquished its rights, the district court's findings demonstrate that Qualcomm intentionally organized a plan to shield its patents from consideration by the JVT, intending to later obtain royalties from H.264-compliant products." *Id.* at 24. However, the Court found that, under these circumstances, it was within the district court's authority, sitting as a court of equity, to determine that Qualcomm's silence in the face of its disclosure obligations fell within the doctrine of implied waiver.

The Court rejected Qualcomm's argument that, because waiver was pled as an affirmative defense, it could not result in a judgment of unenforceability. Analogizing Qualcomm's litigation misconduct to postissuance patent misuse, the Court held that "a district court may in appropriate circumstances order patents unenforceable as a result of silence in the face of an SSO disclosure duty, as long as the scope of the district court's unenforceability remedy is properly limited in relation to the underlying breach." *Id.* at 35. In this case, the Court found that the district court's remedy—rendering the patents unenforceable against the world—was not limited to Qualcomm's misconduct before the JVT. Based on the district court's findings, the Court found that "the broadest permissible unenforceability remedy in the circumstances of the present case would be to render the '104 and '767 Patents [and related patents] unenforceable against all H.264-compliant products" *Id.* at 36. Accordingly, the Court vacated the district court's unenforceability judgment and remanded with instructions to limit the unenforceability remedy to H.264-compliant products.

Finally, the Court rejected Qualcomm's argument that the case could not be found to be exceptional under 35 U.S.C. § 285 based on Qualcomm's bad-faith business conduct prior to litigation. Although the Court found Qualcomm's litigation misconduct alone sufficient to support the district court's exceptional case determination, "in the circumstances of the

present case it was not error for the district court to additionally consider the related JVT misconduct, which was an important predicate to understanding and evaluating the litigation misconduct." *Id.* at 38.

Ordinarily, a Stay and a Preliminary Injunction Should Not Be Granted at the Same Time

Jenna M. Morrison

Judges: Bryson, Gajarsa (author), Dyk

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

In *Proctor & Gamble Co. v. Kraft Foods Global, Inc.*, No. 08-1105 (Fed. Cir. Dec. 5, 2008), the Federal Circuit vacated a stay order and remanded for consideration of the merits of The Proctor & Gamble Company's ("P&G") motion for preliminary injunction.

P&G owns U.S. Patent No. 7,169,418 ("the '418 patent"), which is directed to a plastic container intended to replace conventional metal cans for marketing and storing ground, roast coffee. After the '418 patent issued, Kraft Foods Global, Inc. ("Kraft") filed a request for inter partes reexamination of the '418 patent. The PTO granted Kraft's request for reexamination, but simultaneously confirmed the patentability of every claim of the '418 patent. A month later, Kraft introduced a plastic coffee container for its Maxwell House brand of ground, roast coffee.

P&G sued Kraft for infringement of the '418 patent and filed a motion seeking a preliminary injunction against Kraft's continued use of its plastic containers. Kraft, in turn, filed a motion for a stay pending its appeal to the BPAI of the examiner's decision on reexamination, confirming the patentability of the claims of the '418 patent.

The district court removed from its calendar the scheduled hearing for P&G's preliminary injunction motion, stating that it could not determine P&G's likelihood of success on the merits without construing the claims. The district

court further stated that it would reschedule the hearing: (1) if it did not grant Kraft's motion to stay, and (2) after any claim construction disputes had been resolved. The district court subsequently granted Kraft's motion to stay the case and concluded, without analysis, that "plaintiff's pending motion for preliminary injunction is moot." Slip op. at 3.

"[B]oth a preliminary injunction and a stay ordinarily should not be granted at the same time. A grant of a preliminary injunction followed by a stay of the district court proceedings could subject an accused infringer to unfair and undesirable delay in reaching a final resolution." Slip op. at 11-12.

P&G filed a notice of appeal and Kraft filed a motion for the Federal Circuit to dismiss the appeal for lack of jurisdiction. Kraft argued that: (1) the appeal is premature because the district court's stay order is not a final judgment on the merits and does not expressly deny an injunction; and (2) P&G cannot demonstrate that it would suffer irreparable harm without an immediate appeal. A motions panel of the Court denied Kraft's motion to dismiss, reasoning that (1) the district court's statement characterizing P&G's preliminary injunction motion as moot might be an express denial; and (2) "an order argued to have the effect of denying a request for preliminary injunction 'readily satisfies' the requirement to show irreparable harm." *Id.*

On appeal, the Court concluded it had jurisdiction pursuant to 28 U.S.C. § 1292(c)(1) because the district court's order had the practical effect of denying P&G's motion for preliminary injunction. Because the Court concluded it had jurisdiction to review the effective denial of P&G's motion, it concluded it also had jurisdiction over the district court's decision to stay the case pending reexamination before the PTO.

Turning first to the denial of P&G's motion for preliminary injunction, the Court concluded that the district court abused its discretion by effectively denying the motion without considering and balancing the four required factors: "(1) the likelihood of the patentee's success on the merits; (2) irreparable harm if the injunction is not granted; (3) the balance of hardships between the parties; and (4) the public interest." *Id.* at 7 (quoting *Oakley, Inc. v. Sunglass Hut Int'l*, 316 F.3d 1331, 1338-39 (Fed. Cir. 2003)). The Federal Circuit concluded that the district court expressly refused to consider the first three factors when it stated it could not evaluate P&G's likelihood of success without first construing the claims, and when it refused to consider arguments regarding irreparable harm and the balance of hardships unless the stay was not granted. Accordingly, the Federal Circuit concluded that the district court abused its discretion by issuing the stay, thereby effecting a denial of P&G's preliminary injunction motion, without balancing the four factors.

The Court further noted that, on remand, the district court should consider the current posture of the inter partes reexamination proceedings at the PTO when evaluating P&G's likelihood of success on the merits. The Court, however, cautioned that "the PTO does not appear to equate the 'substantial new question of patentability' standard for whether reexamination should take place with the 'substantial question of validity' standard by which a defendant may prevent a patentee from demonstrating a likelihood of success on the merits." *Id.* at 8 (citations omitted). The Court also noted that, on remand, the district court's consideration of the four factors may require it to interpret the claims, which are presently under review by the PTO. The Court advised the district court to monitor the proceedings before the PTO to ascertain whether its construction of any of the claims of the '418 patent has been impacted by further action by the PTO or any subsequent proceedings.

Turning next to the district court's stay order, the Court rejected P&G's argument that the district court lacked the authority to stay the case at Kraft's request because 35 U.S.C. § 318,

the statute authorizing a stay once an order for inter partes reexamination of a patent has been issued, only authorizes a stay upon the request of the patentee, not of an accused infringer. Reminding that “[t]he Supreme Court has long recognized that district courts have broad discretion to manage their dockets, including the power to grant a stay of proceedings,” the Court concluded that a defendant may seek a stay under the district court’s inherent power. *Id.* at 10-11.

For the same reasons that the Court vacated the effective denial of P&G’s motion for preliminary injunction, the Court vacated the stay and remanded to the district court, noting that the district court “remains free to exercise its discretion and stay this case pending reexamination should either party so move.” *Id.* at 11. The Court cautioned, however, that “both a preliminary injunction and a stay ordinarily should not be granted at the same time.” *Id.* Specifically, the Court noted that a grant of a preliminary injunction followed by a stay of the district court proceedings “could subject an accused infringer to unfair and undesirable delay in reaching a final resolution.” *Id.* at 12.

Baseless Paragraph IV Certification Compounded with Bad-Faith Litigation Makes an ANDA Case Exceptional Under 35 U.S.C. § 285

David Albagli

Judges: Lourie (author), Rader, Bryson (concurring-in-part in the opinion and concurring-in-part in the result)

[Appealed from S.D.N.Y., Judge Cote]

In *Takeda Chemical Industries, Ltd. v. Mylan Laboratories, Inc.*, Nos. 07-1269, -1270 (Fed. Cir. Dec. 8, 2008), the Federal Circuit held that the district court did not clearly err in finding that the case was exceptional due to the misconduct of

defendants Alphapharm Pty. Ltd. and Genpharm, Inc. (collectively “Alphapharm”), and Mylan Laboratories, Inc., Mylan Pharmaceuticals, Inc., and UDL Laboratories, Inc. (collectively “Mylan”), and did not abuse its discretion in awarding attorneys’ fees.

Plaintiffs Takeda Chemical Industries, Ltd. and Takeda Pharmaceuticals North America, Inc. (collectively “Takeda”) own U.S. Patent No. 4,687,777 (“the ‘777 patent”), which covers the antidiabetic drug pioglitazone, which Takeda sells under the trade name ACTOS®. Generic drug companies Alphapharm and Mylan filed an ANDA seeking approval to produce generic pioglitazone. Alphapharm and Mylan made certifications under Paragraph IV that the ‘777 patent was invalid for obviousness. Takeda then filed suit for infringement against Alphapharm and Mylan.

In a bench trial, the district court held the ‘777 patent to be nonobvious and enforceable, and the Federal Circuit affirmed. Takeda then moved for an award of attorneys’ fees against both Mylan and Alphapharm on the theory that this was an exceptional case because Mylan and Alphapharm lacked a good-faith basis for their Paragraph IV letters and engaged in litigation misconduct. The district court ruled for Takeda and awarded \$16.8 million, with Alphapharm to pay \$5.4 million and Mylan to pay \$11.4 million. Both defendants appealed.

On appeal, Alphapharm argued that its Paragraph IV letter was not baseless under structural obviousness law. First, it asserted that its letter did make out a prima facie case of obviousness, and that the letter need not detail why a skilled artisan would have identified a particular compound (“compound b”) as the lead compound. The Federal Circuit found, however, that apart from a brief reference to compound b in its Paragraph IV letter, Alphapharm failed to provide any reason for identifying that as the lead compound. Thus, Alphapharm did not make out a prima facie case of obviousness based on the structural similarity between compound b and pioglitazone.

“Well-supported [ANDA] filings challenging the validity and infringement of patents owned by an NDA holder should not raise the specter of an unjustified holding of an exceptional case.” Slip op. at 14.

The Federal Circuit also noted that the district court did not fault Alphapharm simply for changing its obviousness case at trial from that presented in the certification letter. The Federal Circuit affirmed the district court’s findings, which noted a series of shortcomings in the certification. The article relied upon by Alphapharm presented many impediments to the choice of compound b as a lead compound. And the “insidious” scientific errors in the letter reflected a lack of due care or good faith by Alphapharm. Other assertions in the letter were dropped at trial not for tactical reasons, but because they were unsupportable.

Regarding Alphapharm’s litigation misconduct, the Federal Circuit affirmed the district court’s analysis by which it concluded there was overwhelming evidence of Alphapharm’s bad faith. Alphapharm had over two years to develop its obviousness arguments, yet it failed to explain why its certification was so flawed and why its obviousness arguments had such a “dramatic evolution.” Slip op. at 9. Furthermore, assertions by Alphapharm unrelated to the obviousness claim created confusion, wasted time, and increased the burden of litigation.

The Federal Circuit ruled that the Hatch-Waxman Act imposes a duty of care on an ANDA filer that, though more than a simple negligence standard, does not rise to a gross negligence standard. An ANDA filer fails to meet its duty when it files a baseless certification. The purpose of § 285 is to prevent gross injustice when a party

demonstrates bad faith and litigation misconduct. The district court found Alphapharm’s filing to be baseless, and, moreover, found misconduct during litigation. The Federal Circuit concluded that, given the district court’s familiarity with the parties and the issues and its thorough analysis, it could not say that the district court committed clear error in finding this to be an exceptional case.

In its appeal, Mylan argued that the finding of an exceptional case under § 285 was mere conjecture unsupported by a clear and convincing showing by Takeda. Mylan noted that its original invalidity theory presented in its certification letter was never pursued, and therefore never tested in court. Accordingly, whether it was baseless would be speculative, and it should not be charged with bad faith for developing different defenses during discovery.

The Federal Circuit concluded, however, that Mylan’s certification was “even more baseless” than Alphapharm’s. *Id.* at 12. Mylan’s own designated Rule 30(b)(6) witness testified that no reason existed to choose compound 14 as a lead compound for an obviousness analysis, yet Mylan did so in its certification. The Federal Circuit thus affirmed the district court’s finding that Mylan’s certification letter was filed in bad faith and with no reasonable basis to claim the ‘777 patent invalid, and that the claims Mylan offered as substitutes were similarly frivolous. Thus, the Court held that the district court, which was in the best position to evaluate Mylan’s strategy, did not commit clear error in finding litigation misconduct.

Alphapharm, Mylan, and, through an amicus brief, the Generic Pharmaceutical Association each argued that affirming the case as exceptional would have a chilling effect of deterring ANDA filers from presenting at trial their best defenses if they were not included in their certification letters. The Federal Circuit was not persuaded, noting that ANDA filers are required by statute to include a detailed statement of the factual and legal bases for an

invalidity challenge, and that a well-supported filing should not raise the specter of an unjustified holding of an exceptional case.

With respect to the amount of the award, Alphapharm and Mylan argued that \$16.8 million was excessive for a two-year litigation, and that additional sanctions of expert fees and expenses were unjustified because there was no evidence of fraud or abuse of the judicial process. Mylan further argued that there was no basis for allocating two-thirds of the award to Mylan.

The Federal Circuit affirmed the award, noting that while award of the total amount of a fee request is unusual, such a determination lies within the discretion of the district judge. The Court also affirmed the allocation because Mylan acted as the lead counsel for discovery of the obviousness claims and further added to the case's complexity by its untimely assertion of an inequitable conduct claim. The majority opinion supported the award of expert fees under the district courts' inherent powers because, although appellants' conduct did not amount to fraud, courts may use sanctions where there is bad-faith conduct that cannot be otherwise reached by rule or statute.

Judge Bryson concurred with the majority that the district court did not abuse its discretion in determining the case to be exceptional and awarding Takeda attorneys' fees. With respect to the award for expert fees, however, Judge Bryson concurred with the resulting award, but on a narrow ground. Judge Bryson noted that while district courts can grant expert fees in patent cases under their inherent authority, he cautioned that not every case qualifying as exceptional will also qualify for sanctions. Where the award of attorneys' fees under § 285 and expert witness fees under the district court's inherent authority were predicated on the same conduct, Judge Bryson stated that a court must offer a reasoned explanation for why attorneys' fees and expenses under § 285 are not a sufficient sanction for the conduct in question. Here, while Judge Bryson questioned whether the district

court's explanation was sufficient, because the district court made clear that the amount of the overall award did not depend on the award of expert witness fees, Judge Bryson concurred in upholding the district court's award to Takeda.

SJ of Noninfringement Affirmed Where Providing a Communications Link Required Providing Customers with Internet Access

Shaobin Zhu

Judges: Bryson, Linn, Prost (author)

[Appealed from W.D. Wis., Chief Judge Crabb]

In *Netcraft Corp. v. eBay, Inc.*, No. 08-1263 (Fed. Cir. Dec. 9, 2008), the Federal Circuit affirmed the district court's grant of SJ of noninfringement of U.S. Patent Nos. 6,351,739 ("the '739 patent") and 6,976,008 ("the '008 patent") after affirming claim construction of the phrase "providing a communications link through equipment of the third party."

Netcraft Corporation ("Netcraft") is the assignee of the '739 and '008 patents, which are directed to Internet billing methods. The '739 and '008 patents claim priority to the same parent patent—U.S. Patent No. 5,794,221 ("the '221 patent")—and share a common specification. Netcraft sued eBay, Inc. ("eBay") and PayPal, Inc. ("PayPal") for infringement of the '739 and '008 patents. Each asserted claim of the '739 and '008 patents recites the phrase "providing a communications link through equipment of the third party."

In construing this phrase, the district court noted that, although the claims do not define "communications link," the specification makes clear that the invention requires that the third party provide Internet access to the customer.

Moreover, the district court concluded that the phrase “communications link” is the only part of the claim that could incorporate this requirement. Accordingly, the district court construed the phrase “providing a communications link” as requiring “providing customer access to the internet.” The district court also determined that it was unnecessary to consider the prosecution history when the patent itself was clear. Because the parties agreed that eBay and PayPal do not provide Internet access to customers, the district court granted eBay and PayPal’s motion for SJ of noninfringement.

“We agree with Netcraft that use of the phrase ‘the present invention’ does not ‘automatically’ limit the meaning of claim terms in all circumstances, and that such language must be read in the context of the entire specification and prosecution history.” Slip op. at 7.

On appeal, Netcraft first argued that the ordinary meaning of “communications link” was broader than the district court’s construction, and that neither the claim language nor the ordinary meaning supported the requirement that the third party must provide Internet access. The Federal Circuit disagreed because it was not construing the term standing alone. Rather, the Court considers the claim terms in light of the entire patent. Based on a reading of the common specification in its entirety, as well as the cited prosecution history, the Court concluded that the claim limitation “providing a communications link through equipment of the third party” required providing customers with Internet access.

In support of this conclusion, the Federal Circuit found that the “Summary of the Invention” section of the ‘739 patent repeatedly refers to

“the present invention” and also mentions that “[t]he provider creates access to the Internet for the customer through the provider’s equipment.” The Court agreed with Netcraft that “use of the phrase ‘the present invention’ does not ‘automatically’ limit the meaning of claim terms in all circumstances,” Slip op. at 7. The Court, however, also agreed with the district court for several reasons that the repeated use of the phrase “the present invention” in the specification described the invention as a whole and that the prosecution history does not warrant a contrary result. First, the Court found that the specification, including the Abstract, consistently describes the invention in terms of a third party providing Internet access to customers. The Court also found that every embodiment disclosed in the patents requires that the third party provide Internet access to customers. Finally, the Court found that the district court’s construction was supported by the language of the phrase at issue, which requires that the “communications link” be provided “through equipment of the third party.”

The Federal Circuit next considered Netcraft’s claim differentiation arguments based on claim 6 of the ‘739 patent. Claim 6 depends from claim 1 and recites that “the third party is an Internet access provider, a cable television company, a telephone company, or a company offering financial services.” Netcraft argued that if claim 1 were limited to third parties providing Internet access, claim 6 would be redundant in listing an “Internet access provider” as a possible third party. Netcraft also argued that within claim 6, the differentiation between Internet access providers and the other possible third parties (i.e., a cable television company, a telephone company, or a financial services company) was inconsistent with requiring that all third parties provide Internet access. The Court, however, found that the “Summary of the Invention” section suggests a new business opportunity for companies, including financial services companies, that involves the provision of Internet access. Accordingly, the Court rejected Netcraft’s claim differentiation arguments.

The Federal Circuit next considered the parties' arguments based on the prosecution history, but concluded that the cited prosecution history lacks the clarity of the specification with regard to the meaning of the claim terms at issue. Thus, while the Federal Circuit agreed with Netcraft that the district court should have considered the prosecution history when construing the claims, the Court concluded that its failure to do so was harmless error because the Court reached the same result on appeal after having considered it.

Finally, because the Federal Circuit concluded that the phrase "providing a communications link through equipment of the third party" requires providing customers with Internet access, it affirmed the district court's grant of eBay and PayPal's motion for SJ of noninfringement.

Federal Circuit's Jurisdiction Was Limited When District Court Did Not Certify Decision for Immediate Appeal Under Rule 54(b)

Denise L. Poy

Judges: Mayer, Linn (author), Moore

[Appealed from E.D. Ky., Senior Judge Hood]

In *iLOR, LLC v. Google, Inc.*, No. 08-1178 (Fed. Cir. Dec. 11, 2008), the Federal Circuit affirmed the district court's denial of iLOR, LLC's ("iLOR") motion for preliminary injunctive relief and dismissed the remaining issues raised in iLOR's appeal.

iLOR is the assignee of U.S. Patent No. 7,206,839 ("the '839 patent"), which is directed to a "method for adding a user selectable function to a hyperlink." Claim 26, the only claim at issue in the appeal, recites a method for enhancing a hyperlink, including "providing a user-selectable link enhancement for a toolbar, the toolbar being displayable based on a location of a cursor in relation to a hyperlink."

iLOR sued Google, Inc. ("Google"), alleging that Google's "Google Notebook" product infringed the '839 patent. Google counterclaimed, seeking a DJ of noninfringement, invalidity, and unenforceability of the '839 patent. iLOR then moved for preliminary injunctive relief, requesting that Google be enjoined from using or inducing others to use Google Notebook in a way that infringed claim 26 of the '839 patent. In response, Google filed a cross-motion for SJ of noninfringement. After construing claim 26, the district court granted Google's motion for SJ, denied iLOR's motion for preliminary injunction, and sua sponte ordered that iLOR's claims pending against Google be dismissed with prejudice. The district court entered judgment, stating that the "action" be dismissed with prejudice and that "this Order is FINAL AND APPEALABLE and THERE IS NO JUST CAUSE FOR DELAY." Slip op. at 3-4.

On appeal, iLOR argued that the district court's judgment disposed of all claims and counterclaims, and therefore is final. Thus, according to iLOR, the Court has jurisdiction to address all issues raised below, including the district court's grant of SJ of noninfringement and sua sponte dismissal of its remaining claims.

"[T]he bare recitation of the 'no just cause for delay' standard of Rule 54(b) is not sufficient, by itself, to properly certify an issue for immediate appeal." Slip op. at 8.

The Court rejected this argument and noted that iLOR had improperly relied on *Walter Kidde Portable Equipment, Inc. v. Universal Security Instruments, Inc.*, 479 F.3d 1330 (Fed. Cir. 2007), in arguing that the judgment's dismissal of the "action" necessarily encompassed all claims at issue in the case—both iLOR's claims and Google's counterclaims. In *Walter Kidde*, the district court had dismissed the "action" without prejudice and without explicitly addressing the defendant's counterclaims.

The *Walter Kidde* court stated that “[t]he term ‘action’ encompasses the entire proceedings in the district court, signifying that the order of dismissal terminated [the defendant’s] counterclaims.” *Id.* at 1335 (alterations in original).

In this case, the Court explained that the word “action,” without further explanation, may generally be used to denote the entire judicial proceeding, including counterclaims, as in *Walter Kidde*. Since the parties in *Walter Kidde* had disputed whether the entire proceeding could be dismissed in light of the existence of the counterclaims, it was clear to the Court that the “action” included the claims and counterclaims. The Court, however, denied that *Walter Kidde* goes so far as to support the proposition that a district court’s use of the word “action” robotically signifies all claims, counterclaims, cross-claims, etc., regardless of the context in which the word is used. The Court instructed that the context in which the word “action” is used cannot be ignored.

In distinguishing the current case from *Walter Kidde*, the Court stated that the district court’s decision granting SJ of noninfringement and dismissing the remainder of iLOR’s claims “clearly disposes of iLOR’s half of the case,” but “does not dispose of, or mention, Google’s counterclaims.” Slip op. at 6-7. Because the district court’s judgment does not mention Google’s counterclaims, the Court interpreted “action” in the context of this case to encompass only iLOR’s causes of action. The Court also noted that neither the district court’s decision nor the judgment gave any indication that the district court intended to address or dismiss Google’s counterclaims. The Court further explained that, based on precedent, the district court would have clearly abused its discretion by sua sponte dismissing Google’s counterclaims.

Alternatively, iLOR argued that even if Google’s counterclaims remain pending, the district court’s judgment certifies the decision for immediate appeal under Federal Rule of Civil Procedure 54(b), and therefore vests the Court

with jurisdiction to consider the district court’s denial of preliminary injunctive relief, grant of SJ of noninfringement, and sua sponte dismissal of iLOR’s remaining claims.

Rule 54(b) states that “the court may direct entry of a final judgment as to one or more, but fewer than all, claims or parties only if the court expressly determines that there is no just reason for delay.” In deciding whether an order from the district court is sufficient to compel appellate jurisdiction under Rule 54(b), the Court adopted the consensus view that “the bare recitation of the ‘no just cause for delay’ standard of Rule 54(b) is not sufficient, by itself, to properly certify an issue for immediate appeal. Rather, it must be apparent, either from the district court’s order or from the record itself, that there is a sound reason to justify departure from the general rule that all issues decided by the district court should be resolved in a single appeal of a final judgment.” *Id.* at 8 (citations omitted).

Because the district court’s judgment neither cites Rule 54(b) nor sets forth the circumstances justifying immediate appeal of the decision, but merely states that there is no just cause for delay, the Court concluded that it did not have jurisdiction to review the district court’s grant of SJ of noninfringement or sua sponte dismissal of iLOR’s remaining claims. The Court determined that its jurisdiction was limited under 28 U.S.C. § 1292(a)(1) to the district court’s denial of preliminary injunctive relief, which it affirmed.

In so affirming, the Court agreed with the district court that “the toolbar being displayable based on a location of a cursor in relation to a hyperlink” is properly limited to toolbars that are automatically displayed based on the location of the cursor without further user action. The Court also noted that the claim language does not provide any indication that the display of the toolbar is “based in part” on the cursor position, nor does either the claim language or the specification illustrate any other condition which, along with the cursor position, may cause display of the toolbar. *Id.* at 10. Even assuming there was any ambiguity in the claim language as

to whether further user action is contemplated, such ambiguity is eliminated when the claim language is viewed in light of the specification and prosecution history, which do not disclose any embodiment in which the user must further act in order to display the toolbar.

The Court disagreed with iLOR's contention that, by requiring the cursor to remain proximate to the hyperlink for a predetermined time, as described in the specification, the embodiment contemplates "further user action." The Court stated that, at best, the specification demonstrates that user *inaction* upon placing the cursor near the hyperlink may cause the toolbar to display, but there is nothing in the specification that indicates that some further *action* is required to display the toolbar.

The Court also disagreed with iLOR's contention that arguments describing aspects of other claims during prosecution of the parent application were inapplicable to claim 26, the claim at issue. During prosecution, iLOR had distinguished a prior art reference on the basis that it required further user action for display and did not merely locate the cursor proximate to the hyperlink. The arguments were made to distinguish claims that contained, *inter alia*, limitations in the parent application relating to "detecting a cursor in proximity to said hyperlink" and "displaying a graphical toolbar in proximity to said cursor while said cursor is in proximity to said hyperlink," which are also in claims 1 and 9 of the '839 patent. Thus, the Court noted that iLOR appeared to concede that the arguments made during prosecution of the parent application are applicable to claims 1 and 9. When iLOR added claim 26 during prosecution, it argued that the claim was "similar to" and "allowable for at least the same reasons" as the pending claims, including claims 1 and 9. The Court concluded that these statements and iLOR's contemporaneous failure to put the examiner on notice that it was attempting to capture previously surrendered subject matter rendered iLOR's representations made with respect to the prior art reference applicable to claim 26.

Prior Disclosure of a Racemic Mixture of a Compound Does Not Anticipate or Render Obvious a Claim to an Isolated Enantiomer Having Unpredictable Properties

Timothy A. Marquart

Judges: Newman (author), Lourie, Bryson

[Appealed from S.D.N.Y., Judge Stein]

In *Sanofi-Synthelabo v. Apotex, Inc.*, No. 07-1438 (Fed. Cir. Dec. 12, 2008), the Federal Circuit affirmed the district court's ruling sustaining the validity of U.S. Patent No. 4,847,265 ("the '265 patent") owned by plaintiffs Sanofi-Synthelabo, Sanofi-Synthelabo, Inc., and Bristol-Myers Squibb Sanofi Pharmaceuticals Holding Partnership (collectively "Sanofi").

The suit relates to Sanofi's commercial product Plavix®, which is a platelet aggregation inhibiting agent used to reduce thrombotic events such as heart attacks and strokes. The active ingredient in Plavix®, clopidogrel bisulfate, is claimed in the '265 patent. Clopidogrel is the common name for the dextrorotatory enantiomer of methyl alpha-5(4,5,6,7-tetrahydro(3,2-c)thienopyridyl) (2-chlorophenyl)-acetate ("MATTPCA"). Generally, enantiomers are chemical compounds that have the same chemical structure, but differ in their orientation in three-dimensional space. An equal mixture of enantiomers produces what is called a racemate. The dextrorotatory enantiomer of clopidogrel is unique as it possesses all of the desirable biological properties without any of the negative side effects found in the racemic mixture.

Defendants Apotex, Inc. and Apotex Corp. (collectively "Apotex") filed an ANDA seeking FDA approval to sell clopidogrel bisulfate. The ANDA included a Paragraph IV certification asserting invalidity of the '265 patent. In response, Sanofi filed suit for infringement and Apotex counterclaimed, alleging the '265 patent

was invalid. The district court granted a preliminary injunction, enjoining Apotex's sale of generic clopidogrel bisulfate. The district court later held that the asserted claims of the '265 patent were not invalid, as the prior disclosure of the racemate of clopidogrel did not anticipate or render claim 3 of the '265 patent obvious.

"We discern no error in the district court's findings that . . . a person of ordinary skill would not have had the expectation that separating the enantiomers would be likely to produce an isomer having absolute stereoselectivity as to both the favorable antiplatelet activity and the unfavorable neurotoxicity." Slip op. at 25.

On appeal, the Federal Circuit first addressed Apotex's assertion that claim 3 of the '265 patent was anticipated by U.S. Patent No. 4,529,596 ("the '596 patent") and Canadian Patent No. 1,194,875 ("the '875 patent"). Claim 3 of the '265 patent requires (1) the bisulfate salt of (2) the dextrorotatory enantiomer of (3) MATTPCA (4) to be substantially separated from the levorotatory enantiomer. Apotex conceded that the references did not show any separated enantiomers or describe how to separate them, but argued that such detail is not required because persons of ordinary skill would know the existing techniques for separating enantiomers. Relying on *In re Ruschig*, 343 F.2d 965 (C.C.P.A. 1965), the Court affirmed the district court's determination that the general statements in the '596 and '875 patents were not an anticipatory disclosure of the separated dextrorotatory enantiomer. Specifically, the Court noted that the "knowledge that enantiomers may be separated is not 'anticipation' of a specific enantiomer that has not been separated, identified, and characterized." Slip op. at 14.

Additionally, the Federal Circuit affirmed the district court's finding that the prior art references

did not enable the separation of enantiomers, as they contained no guidance as to how to separate the enantiomers. Apotex argued that the issued patents are entitled to a presumption of enablement, as they carry a presumption of validity. The Court, however, noted that any presumption does not exclude consideration of whether undue experimentation is required, as discussed in *In re Wands*, 858 F.2d 731 (Fed. Cir. 1988). Noting the known difficulty of separating enantiomers and the unpredictability of their properties, the Court affirmed the holding that the reference patents would not have enabled a person of ordinary skill to obtain clopidogrel substantially separated from the levorotatory enantiomer.

Turning to Apotex's obviousness argument, the Federal Circuit considered whether claim 3 of the '265 patent was rendered obvious by the disclosures in the '596 and '875 patents. The Court found no clear error in the district court's finding that one of skill in the art would not have reasonably predicted that the dextrorotatory enantiomer would provide all of the antiplatelet activity but none of the adverse neurotoxicity. The Court also found no clear error in the district court's extensive findings concerning the difficulty and unpredictability of separating the enantiomers. The Federal Circuit held that these findings undermined Apotex's hindsight argument that the separation of the enantiomers would have been obvious. Finally, the Court found no clear error in the district court's conclusion that whether or not separating the enantiomers would have been obvious to try, the wide range of possible outcomes, relative unlikelihood that the resulting compound would exhibit the maximal increase in antiplatelet aggregation activity, and the absence of neurotoxicity makes the compound nonobvious.

The Federal Circuit also rejected Apotex's argument that the separations would have been obvious based on a regulatory requirement that would have alerted a person to the need to separate enantiomers. The evidence of record indicated that Sanofi began separating the enantiomers in an attempt to address certain side effects of the racemic mixture, and not because of a possible future regulatory requirement. The

Court therefore found no clear error in the district court's findings.

Finally, the Court rejected Apotex's assertion that, as in *KSR International Co. v. Teleflex Inc.*, 127 S. Ct. 1727 (2007), claim 3 was obvious as it recited a combination of familiar elements according to known methods, therefore yielding predictable results. Given the extensive evidence of the unpredictable nature of the separation of enantiomers, the Court affirmed that the principles of *KSR* did not control.

Without an Adjective or Other Structural Context for Determining the Characteristics of a "Mechanism," "Mechanism for Moving Said Finger" Invokes 35 U.S.C. § 112, ¶ 6

Stephanie L. Willatt

Judges: Rader (author), Schall, Prost

[Appealed from E.D. Mich., Judge Rosen]

In *Welker Bearing Co. v. PHD, Inc.*, No. 08-1169 (Fed. Cir. Dec. 15, 2008), the Federal Circuit affirmed the district court's grant of SJ of noninfringement of Welker Bearing Company's ("Welker Bearing") U.S. Patent Nos. 6,786,478 ("the '478 patent") and 6,913,254 ("the '254 patent") in favor of PHD, Incorporated ("PHD").

The '478 and '254 patents, which share identical specifications, claim pin clamps that hold a workpiece securely in place during welding and other manufacturing processes. The disclosed pin clamps feature a bullet-shaped locating pin that is inserted into a hole in a workpiece. An actuator propels the locating pin through the hole in the workpiece. As the locating pin slides through the workpiece's hold, clamping fingers emerge out of the pin clamp. These fingers hold the workpiece firmly in place against an annular ring that sits below the locating pin. The actuator provides a clamping force between the fingers and the workpiece.

After the PTO allowed the claims of the '478 patent, Welker Bearing filed a continuation application with broader claims. The continuation application issued as the '254 patent. Claim 1 of the '478 patent explicitly requires a rotational movement mechanism for extending and retracting the fingers, while claim 1 of the '254 patent does not.

Before the district court, Welker Bearing accused two PHD products, the "Clamp I" and "Clamp II" devices, of infringement. Clamp I, which was developed before Clamp II, used a rotational mechanism to move clamping fingers into and out of the pin clamp. After the '478 patent issued, Welker Bearing learned that PHD had developed the Clamp I device. Welker Bearing notified PHD in writing that it believed Clamp I infringed the '478 patent. Since Welker Bearing refused to give PHD a license, PHD developed a modified design, Clamp II, which lacked a rotating central post for moving clamping fingers in and out of the locating pin.

Welker Bearing filed suit against PHD asserting infringement of both the '478 and '254 patents. Welker Bearing conceded that Clamp II did not infringe the '478 patent because it lacked a rotational mechanism for clamping fingers. Thus, the district court limited the issues to Clamp I's possible infringement of the '478 patent and Clamp II's possible infringement of the '254 patent. The district court awarded SJ of noninfringement to PHD on the '478 and '254 patents. Welker Bearing appealed these rulings.

The Federal Circuit found that the record did not contain any evidence that PHD engaged in any activity that infringed the '478 patent after the day the '478 patent issued. Instead, the record showed that PHD only created around ten prototype units of the Clamp I device that never entered production or commercial use. Since the burden remains with the patentee to prove infringement, and Welker Bearing failed to prove any sales of the Clamp I after the '478 patent issued, the Court found that the district court did not err in granting SJ of noninfringement of the '478 patent.

“[W]here, as here, a proposed equivalent has arisen before patent issuance, ‘a § 112 ¶ 6 structural equivalents analysis applies and any analysis for equivalent structure under the doctrine of equivalents collapses into the § 112 ¶ 6 analysis.’” Slip op. at 14 (citation omitted).

The Court then considered whether the “mechanism for moving said finger” limitation in claim 1 of the ‘254 patent invoked 35 U.S.C. § 112, ¶ 6. The ‘254 patent’s claim language does not include the word “means,” but instead the similar word “mechanism.” The Court considered past cases in which it examined the applicability of means-plus-function treatment in the context of the claim term “mechanism.” In *Massachusetts Institute of Technology v. Abacus Software*, 462 F.3d 1344, 1354 (Fed. Cir. 2006) (“MIT”), the Court examined the applicability of means-plus-function treatment to the term “colorant selection mechanism.” In *MIT*, the Court stated that the term “mechanism” standing alone connotes no more structure than the term “means.” However, the claim language that further defines a generic term like “mechanism” can sometimes add sufficient structure to avoid § 112, ¶ 6. The Court read “colorant selection mechanism” as invoking treatment as a functional claim because it did not add sufficient structure.

By contrast, in *Greenberg v. Ethicon Endo-Surgery, Inc.*, 91 F.3d 1580 (Fed. Cir. 1996), the Court held that § 112, ¶ 6 did not apply to the term “detent mechanism,” because the noun “detent” denotes a type of device with a generally understood meaning in the mechanical arts. The Court examined several definitions of “detent.” Because these definitions connoted adequate structure that was reasonably well

understood in the art, the Court concluded that “detent mechanism” was not a mere functional placeholder.

The Court analyzed “mechanism for moving said finger” in light of this case law. The Court found that the “mechanism for moving said finger” language includes even less structural context than the “colorant selection mechanism” in *MIT*. No adjective endows the claimed “mechanism” with a physical or structural component. Further, claim 1 provides no structural context for determining the characteristics of the “mechanism” other than to describe its function. Thus, the unadorned term “mechanism” is “simply a nonce word or a verbal construct that is not recognized as the name of structure and is simply a substitute for the term ‘means for.’” Slip op. at 9 (citation omitted). The Court therefore held that the district court properly applied means-plus-function treatment to this term.

The Court found that the ‘254 patent’s specification fully supported the district court’s construction of “mechanism for moving” as including a rotating central post. The specification repeatedly identified a rotating central post as the disclosed structure for performing the claimed function of “moving said finger.” And the Court noted that “[n]othing in the specification suggests any other structure for moving the claimed fingers.” *Id.* at 12.

The Federal Circuit then held that the Clamp I product could not infringe the ‘254 patent because the ‘254 patent issued after the ‘478 patent. The Court therefore focused on whether PHD’s Clamp II device infringed claim 1 of the ‘254 patent. The record showed that Clamp II propels clamping fingers in and out of the locating pin without any rotational movement. Instead, Clamp II’s linear-moving mechanism for finger movement and the claimed “mechanism for moving said finger” with a rotating central post are “substantially different.” Thus, the Clamp II device did not literally infringe.

The Court then rejected Welker Bearing's DOE argument, stating that this was not a case under the DOE at all, but presented only the question of structural equivalents under § 112, ¶ 6. Structural equivalents and the DOE are related in the sense that they both apply similar analyses of insubstantiality of the differences between a disclosed structure and an accused infringing structure. The difference between the two inquiries is that an equivalent structure under § 112, ¶ 6 must have been available at the time of the issuance of the claim, whereas the DOE can capture after-arising technology developed after the issuance of the patent.

The Court found that the record demonstrated that PHD's linear-moving mechanism for finger movement was well known in the prior art and cannot be classified as after-arising technology. Thus, the Court held that where, as here, a proposed equivalent has arisen before patent issuance, a § 112, ¶ 6 structural equivalents analysis applies and any analysis for equivalent structure under the DOE collapses into the § 112, ¶ 6 analysis. The Court determined that under any analysis, Welker Bearing could not show equivalence between its disclosed mechanism and the Clamp II mechanism. Thus, the Court affirmed the district court's grant of SJ of noninfringement of the '254 patent.

Notice Letters Insufficient to Subject Company to Personal Jurisdiction in DJ Action

Elizabeth D. Ferrill

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

[Appealed from N.D. Ala., Judge Smith]

In *Avocent Huntsville Corp. v. ATEN International Co.*, No. 07-1553 (Fed. Cir. Dec. 16, 2008), the Federal Circuit affirmed the district court's dismissal of all of Avocent Huntsville Corp.'s and Avocent Redmond Corp.'s (collectively

"Avocent") claims for lack of personal jurisdiction, finding that Avocent had failed to allege that ATEN International Co., Ltd. ("ATEN") purposefully directed any activities beyond merely sending notice letters to residents of the forum and that the DJ action arose out of or related to those activities.

Avocent is a subsidiary of Avocent Corporation, a Delaware corporation located in Huntsville, Alabama. Avocent develops and markets computer keyboard-video-mouse ("KVM") switches. ATEN, a Taiwanese corporation, is the assignee of U.S. Patent Nos. 6,957,287 ("the '287 patent") and 7,035,112 ("the '112 patent"), both of which relate to KVM switches. ATEN attempted to enforce its patent rights in three letters. In the first letter, one of ATEN's U.S. subsidiaries attached a copy of a published patent application that led to the '112 patent and suggested that Avocent Corporation review the pending claims. Two years later, in a second letter, another company affiliated with ATEN sent a letter to Amazon.com ("Amazon") encouraging Amazon to discontinue selling various products allegedly infringing the '112 patent, including one Avocent product. Finally, one year later, at a time when ATEN and Avocent Redmond Corp. were litigating a separate infringement suit in the Western District of Washington, counsel for ATEN sent counsel for Avocent Redmond Corp. a letter asserting that the '287 and '112 patents were infringed by Avocent's KVM switch products.

Shortly after the third letter, Avocent sued ATEN in the U.S. District Court for the Northern District of Alabama requesting a DJ of noninfringement and invalidity of the '287 and '112 patents. ATEN moved to dismiss for lack of personal jurisdiction, or in the alternative, to transfer the case to the Western District of Washington, where ATEN and Avocent Redmond Corp. had a pending action. Neither party disputed that some of ATEN's products were available for sale within Alabama. Avocent alleged that ATEN purposefully directed these products to the forum both by injecting them into the stream of commerce through the Internet and

through direct sales activities at, for example, retail stores. The district court granted ATEN's motion, holding that it could not exercise specific jurisdiction over ATEN based on the three letters and that it could not exercise general jurisdiction based on the availability of ATEN's products in Alabama. Avocent appealed.

On appeal, the Federal Circuit first reviewed the two-step legal framework to determine whether personal jurisdiction exists over a nonresident defendant. As Alabama's long-arm statute permits service of process to the extent allowed under the Due Process Clause of the U.S. Constitution, the Federal Circuit focused its analysis on those minimum contacts of ATEN within Alabama, whereby ATEN purposefully availed itself of the benefits and protections of the forum state's laws. The Federal Circuit noted that to establish specific jurisdiction, a plaintiff must demonstrate that the defendant has "purposefully directed" his activities at residents of the forum and the litigation results from alleged injuries that "arise out of or relate to" those activities. Slip op. at 8. Moreover, the Federal Circuit explained that a defendant must purposefully establish minimum contacts within the forum state and these contacts may be considered in light of other factors to determine whether the assertion of personal jurisdiction would comport with fair play and substantial justice.

The Federal Circuit noted that in the context of patent infringement litigation, it employs a three-prong test for specific jurisdiction to determine whether (1) the defendant purposefully directed its activities at residents of the forum; (2) the claim arises out of or relates to those activities, constituting the "minimum contacts" analysis; and (3) assertion of personal jurisdiction is reasonable and fair, constituting the "fair play and substantial justice" requirement. *Id.* at 11-12. In the context of an action for DJ of noninfringement, invalidity, and/or unenforceability, the Federal Circuit explained that the claim asserted by the plaintiff relates to the wrongful restraint by the defendant-patentee

on the free exploitation of noninfringing goods, such as the threat of an infringement suit. Such a claim neither directly arises out of nor relates to the making, using, offering to sell, selling, or importing of arguably patented products in the forum, but instead arises out of or relates to the activities of the defendant-patentee in enforcing the patent or patents-in-suit. Thus, the Federal Circuit noted that for specific personal jurisdiction purposes, the inquiry turns on to what extent has the defendant-patentee purposefully directed its enforcement activities at residents of the forum and the extent to which the DJ claim arises out of or relates to those activities.

The Court noted that in the past, it has held that letters threatening suit for patent infringement sent to the alleged infringer alone did not suffice to create personal jurisdiction because exercising jurisdiction in such a situation would not comport with fair play and substantial justice. Rather, the Court has found that there must be "other activities" directed at the forum and related to the cause of action besides the letters. The Court noted that "other activities" should relate to the enforcement or the defense of the validity of the relevant patents, such as initiating judicial or extrajudicial patent enforcement within the forum or entering into an exclusive license agreement that imposes enforcement obligations with a party residing or regularly doing business in the forum. On the other hand, the defendant-patentee's own commercialization activity and mere evidence of sales within the forum of products covered by the relevant patents are not included in "other activities" that would confer specific personal jurisdiction over the patentee in the context of a DJ claim for noninfringement, invalidity, and/or unenforceability.

Applying these principles, the Federal Circuit concluded that the district court did not have personal jurisdiction over ATEN and that it correctly dismissed Avocent's claims. Avocent asserted that ATEN should be subject to personal jurisdiction in Alabama, arguing that the availability of ATEN's products for sale in the forum state demonstrated a nationwide

distribution network, making ATEN susceptible to jurisdiction in Alabama. Conversely, ATEN argued that, while its products may be purchased in Alabama, there is no evidence that ATEN controlled the distribution of its products, acted in concert with distributors or others, or had any knowledge that the likely destination of its products was Alabama, because any sales activity in the United States was attributable to its subsidiary. ATEN contended that a corporate subsidiary's contacts in the forum state cannot be imputed to the parent corporation absent clear and convincing evidence that the parent controls the subsidiary's activities.

After examining the roles of ATEN and its U.S. subsidiaries, the Federal Circuit determined that Avocent's complaint was fatally deficient since it did not explicitly identify the U.S. subsidiaries or explain the relationship between these corporate entities. Because the mere sale of defendant's products—whether covered by the patents-in-suit or not—is not sufficient to establish specific personal jurisdiction in a DJ suit, the Federal Circuit found that Avocent had failed to allege sufficient activities related to the claim of patent noninfringement and invalidity to support the assertion of specific personal jurisdiction. The Federal Circuit also noted that a district court's refusal to exercise personal jurisdiction over a foreign patentee in a particular state does not foreclose the availability of a domestic forum, because by statute, every foreign patentee is subject to jurisdiction in at least one state or in the District of Columbia. For these reasons, the Court concluded that the district court properly dismissed Avocent's claims against ATEN for lack of personal jurisdiction.

Judge Newman dissented. She stated that the entirety of the contacts with the forum adequately supported the exercise of personal jurisdiction in the forum, comporting with the principles of personal jurisdiction as elaborated by the Supreme Court. In addition to the notice letters, Judge Newman noted that ATEN conducted regular retail sales in the forum in direct competition with Avocent's products and that ATEN threatened suit in the forum. Further, given the pendant state law claims, Judge

Newman stated there was no other forum in which all of the counts of the complaint could be resolved as of right and that the majority should have considered the availability of alternative fora in deciding whether the defendant's contacts with the forum were sufficient for the exercise of personal jurisdiction.

Judge Newman identified seven general factors that contributed to the relationship between the parties and involved the Alabama forum: (1) ATEN's infringement letter was sent to Avocent in Alabama; (2) ATEN's contacts with Alabama included sale of ATEN's products through distributors and retail outlets in Alabama; (3) ATEN's contacts with Avocent's customers were the focus of commercial tort claims under Alabama law; (4) Avocent's manufacture of the accused infringing products was conducted in Alabama; (5) ATEN had brought infringement suits in other U.S. tribunals on the same patent that was the subject of the first letter; (6) no clear alternative forum for this complaint; and (7) due process and fairness. According to Judge Newman, the majority erred in its analysis because it evaluated each factor that contributed to jurisdiction in isolation rather than considering the totality of the factors in combination. She concluded that she would hold that personal jurisdiction lies in the Alabama forum.

Failure to Notify the District Court of a Change in Law Constituted a Waiver on Appeal

Thomas Y. Ho

Judges: Michel, Friedman, Walker (District Judge sitting by designation, author)

[Appealed from S.D.N.Y., Chief Judge Castel]

In *Rentrop v. Spectranetics Corp.*, No. 07-1560 (Fed. Cir. Dec. 18, 2008), the Federal Circuit affirmed the district court's judgment in favor of Dr. Peter Rentrop, finding that The Spectranetics Corporation ("Spectranetics") waived its

challenge to the jury instructions on obviousness, that the jury's verdict of infringement was supported by legally sufficient evidence, and that the district court's determination that Spectranetics did not establish an inequitable conduct defense was not an abuse of discretion or based on clearly erroneous findings of fact.

"We hold that when there is a relevant change in the law before entry of final judgment, a party generally must notify the district court; if the party fails to do so, it waives arguments on appeal that are based on that change in the law." Slip op. at 6.

Dr. Rentrop, inventor and owner of U.S. Patent No. 6,673,064 ("the '064 patent"), sued Spectranetics for infringement of the '064 patent. The '064 patent is directed to an excimer laser catheter, which is used to perform angioplasty procedures. A jury found that Spectranetics's accused products infringed claim 1 of the '064 patent, that the '064 patent was not invalid, and that Dr. Rentrop was the sole inventor of the '064 patent. After trial, the district court denied Spectranetics's JMOL on infringement, rejected Spectranetics's defense of inequitable conduct, and awarded \$500,000 in damages to Dr. Rentrop. Spectranetics appealed.

On appeal, the Federal Circuit first addressed Spectranetics's argument that the '064 patent was invalid for obviousness. Spectranetics argued that claim 1 of the '064 patent was so clearly obvious based on the prior art presented to the jury that the only possible explanation for the jury not finding the claim to be obvious was that the district court gave a rigid "teaching, suggestion, or motivation" jury instruction contrary to the Supreme Court's decision in *KSR International Co. v. Teleflex, Inc.*, 550 U.S. 398 (2007). Dr. Rentrop, on the other hand, argued that Spectranetics waived its argument based on *KSR* because Spectranetics

failed to bring its obviousness argument to the district court's attention before entry of judgment. The Federal Circuit agreed with Dr. Rentrop. The Court reasoned that "[w]here possible, every legal argument should be presented first to the trial court." Slip op. at 6. It explained that *KSR* was decided almost four months before the district court entered judgment, giving Spectranetics ample time to bring that decision to the district court's attention.

The Federal Circuit held that "when there is a relevant change in the law before entry of final judgment, a party generally must notify the district court; if the party fails to do so, it waives arguments on appeal that are based on that change in the law." *Id.* Applying these principles, the Court noted that Spectranetics did not bring *KSR* to the attention of the district court and therefore had waived its arguments based on *KSR*. It thus declined to disturb the jury's determination that the '064 patent was not invalid. Although the Federal Circuit held that Spectranetics waived its arguments based on *KSR*, it noted that the jury instructions on obviousness appeared to be consistent with *KSR*. The Court reviewed the jury instructions and found that even if Spectranetics had not waived its arguments, it would not have been entitled to relief from the jury's finding of nonobviousness.

The Court then addressed Spectranetics's appeal from the district court's denial of JMOL on noninfringement. Spectranetics's noninfringement argument centered on the term "tip" in claim 1 of the '064 patent. Spectranetics argued that the hard and stiff "tip" of its products was not covered by the claim, and that the testimony of Dr. Rentrop's infringement expert, Dr. Edward Sinofski, on this issue was not based on the district court's construction of "tip." The Federal Circuit disagreed. It found that Dr. Sinofski's identification of the tip of Spectranetics's accused products and his explanation of how the tip read on claim 1 of the '064 patent were consistent with the district court's claim construction. Accordingly, the Court concluded that Spectranetics was not entitled to JMOL of noninfringement.

Finally, the Court addressed Spectranetics's appeal of the district court's determination that Spectranetics failed to establish the defense of inequitable conduct. Spectranetics argued that the district court erred by not finding inequitable conduct based on Rentrop's nondisclosure or inadequate disclosure of several items of prior art, and his minimization of Spectranetics's role in the development of the invention disclosed in the '064 patent. The Court disagreed, finding that the district court already considered Spectranetics's arguments and addressed them in an opinion that was well reasoned. Moreover, the Court determined that Spectranetics failed to provide the compelling evidence of materiality and intent to deceive required to establish that the district court abused its discretion or based its determination on clearly erroneous findings of fact. Accordingly, the Federal Circuit affirmed the district court's rejection of the inequitable conduct defense.

A Group of Claims Rejected for Lack of Written Description Do Not Share a Common "Ground of Rejection" Unless the Claims Share a Common Limitation That Lacks Written Description Support

Jessica L. Winchester

Judges: Newman, Gajarsa (author), Ward (District Judge sitting by designation)

[Appealed from D.D.C., Judge Kennedy]

In *Hyatt v. Dudas*, Nos. 07-1050, -1051, -1052, -1053 (Fed. Cir. Dec. 23, 2008), the Federal Circuit affirmed the district court's interpretation of "ground of rejection" in 37 C.F.R. § 1.192(c)(7) (2000) and its remand of Gilbert P. Hyatt's appeals. In so doing, the Court also held that the district court's remand order did not require the Board to consider arguments waived by Hyatt.

"[A] group of claims rejected for lack of written description do not share a common 'ground of rejection' under section 1.192(c)(7)—thus, allowing the Board to consider the group on the basis of a single representative claim—unless the claims share a common limitation that lacks written description support." Slip op. at 10.

Hyatt filed twelve patent applications between April and June 1995 relating to microcomputers, computer memories, computer displays, and global positioning systems. The twelve applications encompassed over 2,400 claims and each claim was rejected by the examiner. The most common basis for rejection was that the claims lacked written description support as required by 35 U.S.C. § 112, ¶ 1. Hyatt appealed to the Board. Hyatt argued that each of his claims should be reviewed independently, noting that the claims were separately patentable and that the claims had been separately argued. The Board concluded, however, that Hyatt had separately argued only twenty-one of his claims. On this basis, the Board selected those twenty-one claims as representative, and upon consideration of those claims, the Board affirmed the examiner's rejections of all the claims.

Hyatt challenged the Board's decision in district court pursuant to 35 U.S.C. § 145. The district court found that Hyatt had failed to separately argue all of his claims. It also concluded, however, that the Board had failed to comply with section 1.192(c)(7) when selecting the representative claims upon which it based its review of the examiner's rejection of groups of claims in Hyatt's applications. The district court held that the Board should not have grouped claims that had been rejected for lack of a written description unless those claims shared a limitation that had been found to have not been

disclosed by the specification. Accordingly, the district court remanded to the Board. The PTO appealed to the Federal Circuit.

On appeal, the Federal Circuit first addressed the issue of whether it had jurisdiction over the appeal. The Court noted that it has exclusive jurisdiction over appeals of final decisions in § 145 actions, but that the case before it was an appeal of a remand order. The Court explained that appellate courts generally do not have jurisdiction over a case when no final judgment has been rendered, and that a remand for further agency proceedings is generally not a final judgment. It observed, however, that there is an exception to the final judgment rule in the rare situation when denying appellate review would likely result in the permanent loss of the agency's ability to appeal the lower court's determination of a legal issue. Applying these principles, the Court reasoned that should it deny appellate review, there would be a substantial risk that the PTO would permanently lose its ability to challenge the district court's interpretation of section 1.192(c)(7). Accordingly, the Court concluded that it had jurisdiction.

The Federal Circuit next turned to the merits. It noted that section 1.192(c)(7) provides that "[f]or each *ground of rejection* which appellant contests and which applies to a group of two or more claims, the Board shall select a single claim from the group and shall decide the appeal as to the ground of rejection on the basis of that claim alone." Slip op. at 6. The PTO asserted that a "ground of rejection," as used in section 1.192(c)(7), was simply the statutory section under which a claim was rejected. Thus, it contended that it could select a claim rejected for failure to satisfy the written description requirement as representative of all claims rejected for failure to satisfy the written description requirement—regardless of whether the limitation in the representative claim that lacks written description support is present in the nonrepresentative claims. Conversely, Hyatt argued that a "ground of rejection" included both (1) the statutory section under which a claim was rejected and (2) the reason why the claim failed to meet that statutory

requirement. Thus, Hyatt contended that the PTO could only select a claim as representative of a group of claims rejected for failure to satisfy the written description requirement if the representative claim and all claims in the group shared a common limitation that lacked written description support.

The Federal Circuit agreed with Hyatt. It found that under section 1.192(c)(7), "a group of claims rejected on the same ground . . . is one in which the differences between the claims is 'of no patentable consequence to a contested rejection.'" *Id.* at 7 (citing *In re McDaniel*, 293 F.3d 1379, 1383 (Fed. Cir. 2002)). It noted that under *McDaniel*, a "ground of rejection" for purposes of section 1.192(c)(7) is not merely the statutory requirement for patentability that a claim fails to meet but also the precise reason why the claim fails that requirement. The Court observed that its interpretation of section 1.192(c)(7) was also consistent with the fact that the PTO bears the initial burden of presenting a prima facie case of unpatentability. It held that "a group of claims rejected for lack of written description do not share a common 'ground of rejection' under section 1.192(c)(7)—thus, allowing the Board to consider the group on the basis of a single representative claim—unless the claims share a common limitation that lacks written description support." *Id.* at 10. Accordingly, the Court concluded that because the PTO plainly erred in its interpretation of section 1.192(c)(7), the district court was correct in remanding Hyatt's appeals to the Board.

The Federal Circuit then turned to the PTO's argument that if the Court rejects its interpretation of "ground of rejection" in section 1.192(c)(7), then the Board will be required on remand to consider grounds of rejection that Hyatt failed to contest in his initial appeals to the Board. The Federal Circuit disagreed. It explained that under the well-established rules of waiver, the Board is not required on remand to consider grounds of rejection that were not contested by Hyatt in his initial appeals to the Board. The Court noted, however, that arguments that become relevant on remand,

whether due to implementation of the district court's decision or other actions by the Board or the examiner, cannot be deemed waived if they were not previously required to have been made.

Contributory Infringement and Active Inducement Analyzed Under Rubric of Supreme Court Copyright Law Decisions

Jason M. Webster

Judges: Gajarsa (dissenting-in-part), Linn, Dyk (per curiam)

[Appealed from W.D. Wis., Chief Judge Crabb]

In *Ricoh Co. v. Quanta Computer Inc.*, No. 07-1567 (Fed. Cir. Dec. 23, 2008), the Federal Circuit held that the district court applied erroneous legal standards for assessing whether defendant Quanta Computer Inc. ("QCI") contributorily infringed U.S. Patent Nos. 5,063,552 ("the '552 patent") and 6,661,755 ("the '755 patent"), and whether defendant Quanta Storage, Inc. ("QSI" and collectively with QCI "Quanta") induced infringement of the same patents. The Court vacated the district court's grant of SJ of noninfringement due to the application of the erroneous standards. The Court affirmed the remainder of the decision, holding that (1) the asserted claims of U.S. Patent No. 6,631,109 ("the '109 patent") are invalid for obviousness; and (2) the accused devices do not practice the methods of the asserted claims of U.S. Patent No. 6,172,955 ("the '995 patent").

The patents-in-suit are directed to various aspects of optical disc drive technology. The '109 patent is directed to methods and apparatuses for generating a particular pulse sequence for recording information to a rewritable optical disc. The '955 patent is directed to methods and apparatuses for formatting rewritable optical discs. The '552 patent is directed to an apparatus and method for controlling the velocity at which a disc drive

spins an optical disc. Finally, the '755 patent is directed to methods of writing data to optical discs in multiple sessions rather than a single session.

QCI manufactures notebook computers, but does not sell the computers directly to consumers. Instead, QCI is an original equipment manufacturer ("OEM") that sells its products to other companies for retail marketing. QSI, which is partially owned by QCI, manufactures optical disc drives. Like QCI, QSI is an OEM that does not sell directly to consumers, but sells its optical disc drives to its U.S. customers, including NU Technology, Inc. ("NU").

Ricoh Company, Ltd. ("Ricoh") sued Quanta, accusing Quanta of directly and indirectly infringing each of the patents-in-suit. On SJ, the district court ruled that (1) the asserted claims of the '109 patent are obvious; (2) the asserted claims of the '955 patent are not infringed; and (3) issues of material fact exist as to whether the accused devices perform the methods of the asserted claims of the '552 and '755 patents. Moreover, with respect to whether the '552 and '755 patents are infringed by Quanta and NU, the district court ruled that (1) Quanta does not directly infringe under § 271(a) because it neither sells nor offers to sell the patented methods; (2) NU does not directly infringe under § 271(a) because Ricoh presented no evidence to show that NU infringed the patents-at-issue while testing the accused device; (3) neither Quanta nor NU contributorily infringe under § 271(a) because all of the devices sold have substantial noninfringing uses; and (4) Ricoh failed to present evidence sufficient to create a material issue of fact as to QSI's intent to induce infringement under § 271(c). Accordingly, the district court dismissed all of Ricoh's claims against Quanta and NU.

On appeal, the Federal Circuit first dismissed Ricoh's arguments that the asserted claims of the '109 patent are not obvious in view of either Ricoh's European Patent Nos. EP 0898272 ("EP '272") or EP 0737962 ("EP '962"). The Court found that, because the range of

recording speeds disclosed in the European patents overlaps the range claimed by the '109 patent, the '109 patent is presumed obvious under *Ormcop Corp. v. Align Technology, Inc.*, 463 F.3d 1299 (Fed. Cir. 2006). Ricoh attempted to overcome this presumption by arguing that the European patents 'teach away' from the range of recording speeds claimed by the '109 patent and that the faster recording speeds produced by the '109 patent produced unexpected results in view of the teachings of the European patents. The Federal Circuit rejected Ricoh's arguments because, first, the Court found no genuine issue of material fact that EP '272 does not teach away from using its disclosed write strategy, which is the same write strategy claimed in the '109 patent, in a high-speed range from 5 m/s to 28 m/s. The Court also found that the mere understanding that the write strategy of the '109 patent and EP '272 is useful in a faster but overlapping linear speed range is not the type of unexpected result that can rebut the prima facie case of obviousness arising from the overlapping ranges. The Court stated that "[s]uch development of the prior art is the quintessence of 'ordinary skill' or 'ordinary skill and common sense' rather than patentable innovation." Slip op. at 13. Accordingly, the Court affirmed that the asserted claims of the '109 patent are invalid as obvious.

Turning to SJ of noninfringement of the '955 patent, the Court first noted that each of the asserted claims of the '955 patent requires the step of "starting a formatting process for said optical disc as a background process." The parties agreed that a background process differs from a foreground process in that a background process "can be interrupted at any time to allow another, higher priority process to be performed." *Id.* The Court found no issue of material fact with regard to infringement because Ricoh failed to cite any evidence that the accused devices use two separate formatting processes, one of which starts in the foreground and the other of which starts in the background. Accordingly, the Court affirmed that no party infringes the claims of the '955 patent.

"Quanta should not be permitted to escape liability as a contributory infringer merely by embedding [a component] in a larger product with some additional, separable feature before importing and selling it. If we were to hold otherwise, then so long as the resulting product, as a whole, has a substantial noninfringing use based solely on the additional feature, no contributory liability would exist despite the presence of a component that, if sold alone, plainly would incur liability." Slip op. at 21-22.

The Court next considered Quanta's direct infringement of the method claims of the '552 and '755 patents through the sale or offer of sale of software. Ricoh argued that a party may directly infringe a method claim under 35 U.S.C. § 271(a) by offering to include patented methods in software sold as part of an accused device. Relying on the Supreme Court's recent holding in *Quanta Computer, Inc. v. LG Electronics, Inc.*, 128 S. Ct. 2109, 2117 (2008), that "a patented method may not be sold in the same way as an article or device," the Court concluded that "a party that sells or offers to sell software containing instructions to perform a patented method does not infringe the patent under § 271(a)." Slip op. at 17-18. The Court also concluded that Ricoh failed to put forth evidence sufficient to create a material issue of fact as to whether NU directly infringed the '552 and '755 patents by testing the accused devices upon receipt from Quanta.

The Court turned next to Ricoh's arguments that Quanta contributorily infringed the '552 and '755 patents by selling optical disc

drives adapted to perform the patented recording methods. As an initial matter, the Court recognized that this case “presents an important, and previously unresolved, question concerning the scope of liability for contributory infringement, the construction of § 271(c), and the interpretation of the Supreme Court’s decisions in *Sony Corporation of America v. Universal City Studios, Inc.*, 464 U.S. 416 (1984), and *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913 (2005).” Slip op. at 19.

The Court first reminded that “one who sells a component especially designed for use in a patented invention may be liable as a contributory infringer, provided that the component is not a staple article of commerce suitable for substantial noninfringing use.” *Id.* at 20. The Court further noted that, were direct infringement found, Quanta would be liable under § 271(c) if it imported into or sold in the United States a bare component that had no use other than practicing the methods of the ‘552 and ‘755 patents. The Court warned that “[i]t thus follows that Quanta should not be permitted to escape liability as a contributory infringer merely by embedding [a] microcontroller in a larger product with some additional, separable feature before importing and selling it.” *Id.* at 21. The Court concluded that, if it were to hold otherwise, then so long as the resulting products, as a whole, had a substantial noninfringing use based solely on the additional feature, no contributory liability would exist despite the presence of a component that, if sold alone, plainly would incur liability. The Court held that this result would run contrary to what the Supreme Court recognized in *Grokster* as a fundamental purpose of contributory infringement liability—to provide an alternative to suing all direct infringers by allowing suit against distributors for secondary liability.

Recognizing that the *Grokster* and *Sony* cases involved contributory infringement under copyright law rather than patent law, the Court stated that “the principles are generally the same.” *Id.* at 23. The Court concluded that

“it is entirely appropriate to presume that one who sells a product containing a component that has no substantial noninfringing use in that product does so with the intent that the component will be used to infringe.” *Id.* at 24. The Court was unable to read *Grokster* as suggesting that Congress intended § 271(c) to eliminate this presumption in such cases where an infringing component is bundled together with something else. Moreover, the Court found that, unlike the disputed facts of the present case, the VCRs at issue in *Sony* did not have recording components that could only be used to infringe and separable, distinct playback components that did not infringe. Thus, the Court found that the *Sony* court had no occasion to address the question at issue here. Further, noting that, unlike contributory infringement, induced infringement under § 271(b) requires proof of affirmative intent to cause direct infringement, the Court concluded that the potential for induced infringement liability is not a practical substitute for contributory infringement liability.

For these reasons, the Court vacated the grant of SJ of no contributory infringement and remanded to the district court for further proceedings on the material issue of fact of whether Quanta’s products contain hardware or software components that have no substantial noninfringing use other than to practice Ricoh’s claimed methods, in which case contributory infringement may appropriately be found.

Finally, the Court considered whether defendant QSI actively induced infringement under 35 U.S.C. § 271(b), which states that “[w]hoever actively induces infringement of a patent shall be liable as an infringer.” Ricoh claimed that QSI actively induced infringement by its customers as well as the end users of the drives. Initially, the Court noted that a finding of inducing infringement requires a threshold finding of direct infringement—either a finding of specific instances of direct infringement or a finding that the accused products necessarily infringe. Thus, the Court considered whether “Ricoh has introduced evidence sufficient to create a material

issue of fact as to Quanta's intent that its drives be used to infringe the method claims of the '552 and '755 patents." Slip op. at 29. Again, the Court turned to *Grokster* and its analysis of the law of active inducement, reminding that "when an article is suitable for substantial noninfringing use, an evidentiary showing that the defendant intended that the article be used for direct infringement is required." *Id.* (citing *Grokster*, 545 U.S. at 935). The Court also noted that, in *Grokster*, the Supreme Court concluded that a showing of intent does not require evidence that the accused indirect infringer successfully communicated a message of encouragement to the alleged direct infringer. *Id.* at 30 (citing *Grokster*, 545 U.S. at 938).

Accordingly, the Court concluded that the district court improperly applied the law of active inducement when it required an affirmative act that is communicated in some fashion to the alleged direct infringer. In particular, the Court concluded that the district court erred in discounting evidence of QSI's intent, including product specification sheets, a presentation given to Dell, and website instructions, as failing to present evidence that QSI communicated the nature of its actions to alleged direct infringers. The Court also concluded that the district court incorrectly analyzed other circumstantial evidence presented by Ricoh. Specifically, the Court concluded that, in light of QSI's knowledge of the '552 and '755 patents, "QSI's role as the designer and manufacturer of the optical drives in question may evidence an intent sufficiently specific to support a finding of inducement." *Id.* at 32. For these reasons, the Court remanded Ricoh's inducement claim against QSI for further consideration.

In a dissenting opinion, Judge Gajarsa agreed with respect to the result and judgment reached by the majority, but disagreed with the majority's "decision to decide the difficult issue of contributory infringement on the basis of policy concerns without due regard for the text of 35 U.S.C. § 271(c)." Gajarsa Dissent at 1. In Judge Gajarsa's view, the majority made three errors in its contributory infringement analysis. First, Judge Gajarsa found that the majority ignored the fact that Quanta does not

sell or offer to sell the accused components, as the term "sell" is used in § 271(c). Judge Gajarsa stated that "irrespective of whether the hardware and software components of Quanta's drives identified by Ricoh constitute a separable component or a material or apparatus for use in practicing Ricoh's method claims, it is undisputed that Quanta has neither offered for sale nor sold these components as the term 'sale' has been interpreted by this court." *Id.* at 3. Second, Judge Gajarsa viewed the majority's application of § 271(c) as overly inclusive and at odds with Supreme Court guidance as to how § 271(c) ought to be interpreted. In Judge Gajarsa's view, the "majority's [decision] would burden the wheels of commerce and would give undue regard to the limited monopoly of the patent statute at the expense of the public interests identified by the Supreme Court." *Id.* at 6. Finally, Judge Gajarsa noted the conduct to which the majority objected relates to the design and manufacture of components, even though § 271(c) only addresses the act of selling a component. Judge Gajarsa stated that "[n]othing in § 271(c) can be read as directed to the non-sale activity of embedding components in larger products. Rather § 271(c) is concerned only with the sale of either the component or the larger product." *Id.*

A Patent Law Expert May Not Testify as an Expert on Infringement or Validity Unless He Is Also Qualified as an Expert in the Pertinent Art

Joshua L. Goldberg

Judges: Dyk, Prost, Moore (author)

[Appealed from E.D. Mich., Senior Judge Cohn]

In *Sundance, Inc. v. DeMonte Fabricating Ltd.*, Nos. 08-1068, -1115 (Fed. Cir. Dec. 24, 2008), the Federal Circuit held that the district court abused its discretion in permitting a patent law expert, who was not qualified as a technical expert, to testify on issues of infringement and

validity. Additionally, the Court reversed the district court's judgment that claim 1 of U.S. Patent No. 5,026,109 ("the '109 patent") was nonobvious, concluding as a matter of law that the claim was invalid for obviousness under 35 U.S.C. § 103.

"The court, in its role as gatekeeper, must exclude expert testimony that is not reliable and not specialized, and which invades the province of the jury to find facts and that of the court to make ultimate legal conclusions. Allowing a patent law expert without any technical expertise to testify on the issues of infringement and validity amounts to nothing more than advocacy from the witness stand." Slip op. at 12-13.

The '109 patent is directed to retractable segmented covering systems. In particular, claim 1 is directed to "[a] retractable segmented cover system used with a truck trailer comprising a plurality of flexible cover sections . . . wherein a cover section can be removed from the cover system independent of the other cover sections." Slip op. at 2.

Sundance, Inc. and Merlot Tarpaulin and Sidekit Manufacturing Company, Inc. (collectively "Sundance") sued DeMonte Fabricating Ltd. and Quick Draw Tarpaulin Systems, Inc. (collectively "DeMonte") for infringement of claim 1 of the '109 patent. At trial, DeMonte presented two prior art references to the jury as a basis for a determination of obviousness. DeMonte's patent law expert, Daniel Bliss, opined that one of ordinary skill in the art would be motivated to combine the two references. A jury concluded that claim 1 was infringed but was obvious.

Following the jury's verdict, the district court held as a matter of law that the '109 patent was not invalid. After the Supreme Court decided *KSR International Co. v. Teleflex Inc.*, 127 S. Ct. 1727 (2007), DeMonte moved for reconsideration, which the district court denied. DeMonte also moved for JMOL of noninfringement, which the district court denied. DeMonte appealed both rulings. Sundance cross-appealed the district court's denial of prejudgment interest for infringement sales made prior to the date it filed suit.

On appeal, the Federal Circuit first considered the district court's admission of testimony from DeMonte's patent law expert, Mr. Bliss. DeMonte submitted an expert report of Mr. Bliss, indicating that he would opine on PTO practices and procedures, claim construction, noninfringement, invalidity, and inequitable conduct. Sundance filed a motion in limine to preclude Mr. Bliss from testifying at trial, arguing that Mr. Bliss lacked appropriate technical background and was not qualified to testify about his interpretation of the law or ultimate legal conclusions. The district court denied the motion in its entirety, and at trial, Mr. Bliss testified on the issues of noninfringement and invalidity, including the factual predicates underlying obviousness as well as his conclusion that claim 1 of the '109 patent would have been obvious.

The Federal Circuit found that the district court abused its discretion in denying Sundance's motion in limine and that Mr. Bliss was not qualified to testify as an expert witness on the issues of infringement or validity. The Court explained that those issues are "analyzed in great part from the perspective of a person of ordinary skill in the art, and testimony explaining the technical evidence from that perspective may be of great utility to the factfinder." Slip op. at 7. It pointed out that, despite the absence of any suggestion of relevant technical expertise, Mr. Bliss offered expert testimony on several issues that were exclusively determined from the perspective of ordinary skill in the art. Since Mr. Bliss was not "qualified as an expert by knowledge, skill, experience, training, or

education” in the pertinent art, the Court failed to see how he could “assist the trier of fact to understand the evidence or to determine a fact in issue.” *Id.* at 8 (citing Fed. R. Evid. 702). The Court noted that admitting testimony from a person such as Mr. Bliss, with no skill in the pertinent art, “serves only to cause mischief and confuse the factfinder.” *Id.* at 9. The Court ruled that unless a patent lawyer is also qualified as a technical expert, his testimony on these kinds of technical issues is improper and thus inadmissible. It concluded that because Mr. Bliss was never offered as a technical expert, and in fact was not qualified as a technical expert, it was an abuse of discretion for the district court to permit him to testify as an expert on the issues of noninfringement or invalidity.

The Federal Circuit next considered the district court’s entry of JMOL overturning the jury’s verdict of obviousness. The Court noted that its holding that the testimony of Mr. Bliss should have been excluded meant that there was no expert testimony supporting a holding of obviousness. Nevertheless, the Court concluded that no such testimony was required because there were no factual issues in dispute as to obviousness. Sundance argued that the combination of the two prior art references that DeMonte relied upon did not disclose every limitation of claim 1 of the ’109 patent. The Federal Circuit disagreed, finding that the combination satisfied every limitation of claim 1 of the ’109 patent.

The Federal Circuit then turned to whether the combination would have been obvious at the time of the invention. Citing *KSR*, the Court noted that a combination is more likely to be obvious where it “‘simply arranges old elements with each performing the same function it had been known to perform’ and yields no more than one would expect from such an arrangement.” *Id.* at 16 (quoting *KSR*, 127 S. Ct. at 1742). The Court found that the truck cover of claim 1 of the ’109 patent was the result of precisely such an obvious combination. The Court added that the truck cover claimed in the ’109 patent represented the “mere application of a known technique to

a piece of prior art ready for the improvement,” just as in *KSR*. *Id.* at 17 (quoting *KSR*, 127 S. Ct. at 1740). It concluded that a cover designer of ordinary skill, at the time of the invention, would have found it obvious to combine the teachings of the two prior art references at issue. Thus, the Court reversed the district court’s JMOL that claim 1 of the ’109 patent was nonobvious. Because the Court held as a matter of law that claim 1 was invalid for obviousness, it noted that it did not need to address the issues of infringement or prejudice interest.

Federal Circuit Grants Writ of Mandamus Directing District Court for the Eastern District of Texas to Transfer a Patent Case to Ohio

Louis L. Campbell

Judges: Michel, Rader (author), Prost

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

In *In re TS Tech USA Corp.*, No. 09-M888 (Fed. Cir. Dec. 29, 2008), the Federal Circuit, applying Fifth Circuit law, held that the district court had abused its discretion in denying defendants’ motion to transfer the case from the U.S. District Court for the Eastern District of Texas to the Southern District of Ohio. Moreover, the Court issued a writ of mandamus directing the district court to transfer the case.

Lear Corporation (“Lear”) sued defendants TS Tech USA Corporation, TS Tech North America, Inc., and TS Tech Canada, Inc. (collectively “TS Tech”) for infringement of Lear’s patent relating to vehicle headrests. Lear alleged direct infringement because TS Tech sold headrests to Honda Motor Co., Ltd. (“Honda”). Lear also alleged induced infringement because TS Tech knowingly and intentionally induced Honda to infringe by including the headrests in their vehicles sold throughout the United States, including in the Eastern District of Texas.

TS Tech filed a motion pursuant to 28 U.S.C. § 1404(a) to transfer venue to the Southern District of Ohio. TS Tech argued that the Southern District of Ohio was a more convenient venue because the physical and documentary evidence was located mainly in Ohio and all key witnesses lived in Ohio, Michigan, or Canada. TS Tech further argued that there was no meaningful connection between the venue and the case, given that none of the parties were incorporated in Texas or had offices in the Eastern District of Texas.

The district court denied transfer, finding that the inconvenience to the parties and witnesses was not clearly outweighed by the deference entitled to Lear's choice of venue. It also found that because several vehicles with allegedly infringing headrests had been sold in the Eastern District of Texas, the citizens of that district had a substantial interest in having the case tried locally. TS Tech then filed a petition for a writ of mandamus with the Federal Circuit.

Under Fifth Circuit law, the Court stated that a motion to transfer venue should be granted upon a showing that the transferee venue is clearly more convenient than the venue chosen by the plaintiff. The Fifth Circuit applies four "private" and four "public" interest factors when deciding a § 1404(a) venue transfer question. The private interest factors include (1) the relative ease of access to sources of proof; (2) the availability of compulsory process to secure the attendance of witnesses; (3) the cost of attendance for willing witnesses; and (4) all other practical problems that make a trial easy, expeditious, and inexpensive. The public interest factors include (1) the administrative difficulties flowing from court congestion; (2) the local interest in having localized interests decided at home; (3) the familiarity of the forum with the law that will govern the case; and (4) the avoidance of unnecessary problems of conflicts of laws or in the application of foreign law.

The Court first noted that several of the factors were neutral and the district court was correct in giving them no weight. The neutral factors

included the availability of compulsory process and the possibility of delay and prejudice in granting transfer. The Court also found that administrative difficulties due to court congestion and the familiarity of the forum with the law that will govern the case were neutral as well.

But the Federal Circuit held that the district court made four key errors. First, the district court gave too much weight to Lear's choice of venue. Fifth Circuit precedent clearly forbids treating the plaintiff's choice of venue as a distinct factor in the transfer analysis. Slip op. at 6 (relying on *In re Volkswagen of Am., Inc.*, 545 F.3d 304, 315 (5th Cir. 2008) (en banc) ("*Volkswagen II*"). Rather, the plaintiff's choice of venue corresponds to the burden that a moving party must meet to demonstrate that the transferee venue is a clearly more convenient venue. The district court erred in giving inordinate weight to Lear's choice of venue by weighing Lear's choice as a separate factor and affording the choice considerable deference.

"Here, the vehicles containing TS Tech's allegedly infringing headrest assemblies were sold throughout the United States, and thus the citizens of the Eastern District of Texas have no more or less of a meaningful connection to this case than any other venue." Slip op. at 8.

Second, the district court ignored Fifth Circuit precedent in assessing the cost of attendance for the witnesses. The Court noted the Fifth Circuit's "100-mile" test, which requires that "[w]hen the distance between an existing venue for trial of a matter and a proposed venue under § 1404(a) is more than 100 miles, the factor of inconvenience to witnesses increases in direct relationship to the additional distance to be traveled."

Slip op. at 6 (alteration in original) (quoting *In re Volkswagen AG*, 371 F.3d 201, 204-05 (5th Cir. 2004) (“*Volkswagen I*”). The Court held that the district court completely disregarded the 100-mile rule in this case. All of the key witnesses are in Ohio, Michigan, and Canada, and would thus need to travel approximately 900 more miles to attend trial in Texas than Ohio. The district court committed clear error by not giving great weight to this factor.

Third, the Federal Circuit held that the district court erred by concluding the factor regarding the relative ease of access to sources of proof was neutral as to transfer. The district court found that because many of the documents were stored electronically, the increased ease of storage and transportation makes this factor much less significant. The Federal Circuit held, however, that the fact that access to some sources of proof presents a lesser inconvenience now than it might have absent recent developments does not render this factor superfluous. Because all of the physical evidence was far more conveniently located near the Ohio venue, the district court erred in not weighing this factor in favor of transfer.

Lastly, the Court held that the district court erred by disregarding Fifth Circuit precedent in analyzing the public interest in having localized interests decided at home. The Court stated, “As in *Volkswagen I* and *Volkswagen II*, there is no relevant connection between the actions giving rise to this case and the Eastern District of Texas except that certain vehicles containing TS Tech’s headrest assembly have been sold in the venue.” *Id.* at 7-8. The parties have no offices in the district, no witnesses reside in the district, and no evidence is in the district. Instead, the vast majority of witnesses, evidence, and events leading to the case involve Ohio or its neighboring state of Michigan. Therefore, the district court’s conclusion that this factor weighed against transfer directly contradicted Fifth Circuit precedent.

Both *Volkswagen I* and *Volkswagen II* unequivocally rejected the district court’s reasoning that the public interest factor disfavored transfer because the citizens of its district had a substantial interest in having the case tried locally since several of the vehicles were sold in that venue. “Here, the vehicles containing TS Tech’s allegedly infringing headrest assemblies were sold throughout the United States, and thus the citizens of the Eastern District of Texas have no more or less of a meaningful connection to this case than any other venue.” *Id.* at 8. “The fact that this is a patent case as opposed to another type of civil case does not in any way make the district court’s rationale more logical or make the factor weigh against transfer.” *Id.* Therefore, the district court erred by weighing this factor against transfer.

Because of these errors, the Court found that TS Tech had met its difficult burden of demonstrating a “clear” abuse of discretion rather than a “mere” abuse of discretion. The Court found that the district court’s errors in this case were essentially identical to the errors underlying the en banc Fifth Circuit’s grant of mandamus in *Volkswagen II*. Accordingly, the Federal Circuit held that TS Tech had demonstrated a clear and undisputable right to a writ.

The Federal Circuit rejected Lear’s argument that TS Tech cannot demonstrate that it had no other means of obtaining its request for relief because TS Tech did not ask the district court to reconsider its motion denying transfer after the Fifth Circuit issued its en banc decision in *Volkswagen II*. First, the Court stated that TS Tech had no reasonable expectation that seeking reconsideration in light of *Volkswagen II* would have produced a different result, as the case did not change any aspect of the law regarding the district court’s § 1404(a) analysis. Second, the Court held that the “no other means” requirement is not intended to ensure that TS Tech first exhaust every possible avenue of relief before seeking mandamus relief. Rather, the purpose of the

requirement is to ensure that the writ will not be used as a substitute for the regular appeals process. Finally, the Court held that under Fifth Circuit law, a party seeking mandamus for a denial of transfer clearly meets the “no other means” requirement, as interlocutory review of a transfer order is unavailable. Moreover, a petitioner would not have an adequate remedy by way of an appeal from an adverse final judgment because the petitioner would not be able to show that it would have won the case had it been tried in a convenient venue.

Accordingly, the Court granted the petition for writ of mandamus and directed the district court to vacate its order and transfer the case to the Southern District of Ohio.

Permanent Injunction Affirmed Despite Prior License Agreements

Nicholas S. Stroehrer

Judges: Mayer, Lourie (author), Gajarsa

[Appealed from D. Or., Judge Brown]

In *Acumed LLC v. Stryker Corp.*, No. 08-1124 (Fed. Cir. Dec. 30, 2008), the Federal Circuit affirmed the district court’s grant of a permanent injunction barring defendants Stryker Corporation, Stryker Sales Corporation, Stryker Orthopaedics, and Howmedica Osteonics Corporation (collectively “Stryker”) from selling its T2 proximal humeral nails.

Plaintiff Acumed LLC (“Acumed”) is the assignee of U.S. Patent No. 5,472,444 (“the ‘444 patent”), which is directed to a proximal humeral nail (“PHN”), a type of orthopedic nail used to treat upper arm bone fractures. Acumed sued Stryker, alleging that Stryker’s T2 PHN infringed the ‘444 patent. A jury found that Stryker had willfully infringed certain valid claims of the ‘444 patent and awarded damages to Acumed. The district

court granted Acumed’s motion for a permanent injunction, and Stryker appealed.

While Stryker’s appeal was pending, the Supreme Court decided *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 394 (2006), which held that the traditional four-factor test for permanent injunctions must be faithfully applied in patent cases as in other types of cases. Accordingly, after affirming the district court’s finding of willful infringement, the Federal Circuit vacated the permanent injunction (which had been stayed) and remanded the case for reconsideration of the four-factor test for injunctive relief in light of *eBay*.

Acumed accordingly filed a new motion for a permanent injunction. Stryker submitted an opposition memorandum supported by new evidence, and Acumed then submitted a reply memorandum containing new arguments and evidence. Stryker filed a motion to strike the new arguments and evidence contained in Acumed’s reply memorandum. The district court denied Stryker’s motion to strike, and, applying the four-factor test for injunctive relief in accordance with *eBay*, concluded that a permanent injunction should issue. Stryker timely appealed the district court’s judgment.

On appeal, the Court first considered the first two factors of the four-factor test—irreparable harm and lack of an adequate remedy at law. The Court found no abuse of discretion in the district court’s finding that money damages constituted adequate compensation only for Stryker’s past infringement and that no adequate remedy at law existed for Stryker’s future infringement. The Court noted that “[t]he essential attribute of a patent grant is that it provides a right to exclude competitors from infringing the patent,” and “[i]n view of that right, infringement may cause a patentee irreparable harm not remediable by a reasonable royalty.” Slip op. at 6. The Court went on to stress that, while the fact that a patentee has previously chosen to license the patent may indicate that a reasonable

royalty does compensate for an infringement, other factors such as the identity of the past licensees, the experience in the market since the licenses were granted, and the identity of the new infringer may affect the district court's discretionary decision concerning whether a reasonable royalty from an infringer is adequate. The Federal Circuit found that the district court properly weighed these factors.

“While the fact that a patentee has previously chosen to license the patent may indicate that a reasonable royalty does compensate for an infringement, that is but one factor for the district court to consider.”
Slip op. at 6.

The Court then considered Stryker's argument that the district court erred in determining that the balance of hardships favored Acumed. The Court noted that the balance considered is only between a plaintiff and a defendant, and thus the effect on customers and patients alleged by Stryker is irrelevant under this prong of the test. The Court found no abuse of discretion in the district court's decision to not consider Stryker's expenses in designing and marketing the infringing product. Similarly, the Court saw no abuse of discretion regarding the district court's characterization of Stryker's decision to not sell its own noninfringing alternate design in the United States as a business decision that did not tip the balance of hardships in Stryker's favor.

Regarding the fourth factor, public interest, the Federal Circuit also found no abuse of discretion. Although Striker argued that its infringing device was demonstrably safer and superior to Acumed's device, the district court concluded that there was not sufficient objective evidence of any

public-health issue to find that public interest would be disserved by a permanent injunction. The Federal Circuit found this conclusion to be within the district court's discretion. In addition, the Court found that the district court did not abuse its discretion by assuming that physicians could choose noninfringing alternatives to Acumed's Polarus PHN. The Court went on to reason that, because the district court did not find Stryker's public-health argument persuasive, it did not have to state explicitly that the available alternatives to the Polarus also did not suffer from the same public-health issue. Thus, the Federal Circuit held that the district court did not abuse its discretion regarding the final factor of the injunction test.

The Federal Circuit also held that the district court's denial of Stryker's motion to strike was not an abuse of discretion. The Court applied Ninth Circuit law, which reviews a district court's decision to deny a motion to strike for abuse of discretion. While the Court noted that, generally, a court should not consider new evidence presented in a reply without giving the other party an opportunity to respond, the Court also stressed that “a district court must be allowed to halt the exchange of reply memoranda at some point.” *Id.* at 13. The Court pointed out that, although Stryker was not given an opportunity to respond on paper to the new arguments and evidence Acumed submitted in its reply, the district court gave Stryker an opportunity to present its rebuttal arguments orally. Consequently, the Court found that the district court did not abuse its discretion in denying Stryker's motion to strike.

The Court characterized this as a “close case,” especially with regard to the irreparable harm and lack of adequate remedy at law prongs and the public interest prong of the four-factor test. Nonetheless, the Federal Circuit stated that the abuse of discretion standard of review compelled its decision to affirm the district court's holding.

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Abbreviations

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

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Looking Ahead

On January 28, 2009, the applicants in *In re Bilski*, 545 F.3d 943 (Fed. Cir. 2008) (en banc), filed a petition for a writ of certiorari. The petition asks the U.S. Supreme Court to review and reverse the *Bilski* decision in which the Federal Circuit affirmed the decision of the Board, finding that the method claims were not directed to statutory subject matter under 35 U.S.C. § 101. In doing so, the Court noted that the machine-or-transformation test is the test that should be used to determine whether a process claim is drawn to statutory subject matter. The Court explained that under this test, a claimed process is patentable under § 101 if (1) it is tied to a particular machine or apparatus, or (2) it transforms a particular article into a different state or thing.

The petition argues that the Federal Circuit's decision changes the law by requiring a process to be tied to a machine or transform articles in order to be eligible for patenting. It asserts that this "machine-or-transformation test" is inconsistent with the patent statute, which provides that "any new and useful process" is patentable. It also notes that the Federal Circuit's test is contrary to prior decisions by the U.S. Supreme Court in which the High Court refused to adopt the machine-or-transformation test.

Look for an update on this petition in the months ahead.