Last month at | The Federal Circuit

APRIL 2004

Month at a Glance

FINNEGAN HENDERSON FARABOW GARRETT & DUNNER LLP

Washington, DC
202.408.4000

Atlanta, GA
404.653.6400

Cambridge, MA
617.452.1600

Palo Alto, CA
650.849.6600

Reston, VA
571.203.2700

Brussels
+ 32 2 646 0353

Taipei
+ 886 2 2712 7001

Tokyo
+ 03 3431 6943

EDITED BY | VINCE KOVALICK

This publication brings you a synopsis of patent cases decided last month by the United States Court of Appeals for the Federal Circuit based on slip opinions received from the court. You can review and download the full text of each opinion by visiting our website at *www.finnegan.com*

No Case or Controversy Between Patentee and Licensee in Good Standing

Antigone G. Kriss

[Judges: Rader (author), Archer, and Gajarsa]

In *Gen-Probe Inc. v. Vysis, Inc.*, No. 02-1617 (Fed. Cir. Mar. 5, 2004), the Federal Circuit held that no case or controversy exists between patentee and licensee where the licensee sued for DJ of invalidity or unenforceability but continued paying royalties and exercised its right to extend the license to third parties.

Vysis, Inc. and its corporate predecessor (collectively "Vysis") own U.S. Patent No. 5,750,338 ("the '338 patent"), which claims methods and kits for use in nucleic acid diagnostic assays, such as HIV and hepatitis C blood assays. At the time this patent issued, Vysis and Gen-Probe Inc. ("Gen-Probe") were involved in litigation over other patents. Vysis informed Gen-Probe of this patent and, in light of Gen-Probe's plans to develop blood-screening technology, it decided to take a non-exclusive license to this and other related patents it might otherwise infringe as part of the settlement of unrelated patent litigation. This license also included an option for Gen-Probe to extend the license to its third-party collaborators in the assay market.

After taking this license, Gen-Probe wrote a letter to Vysis stating that it intended to maintain its royalty payments under the license and to exercise its option to extend the license to Chiron Corporation ("Chiron") and Bayer Corporation ("Bayer"), but that it believed that its tests did not infringe any claims of the licensed patents and that the '338 patent is invalid. The letter also stated that Gen-Probe was concurrently filing suit against Vysis seeking relief from the '338 patent but that to maintain the status quo, it would continue its royalty payments and exercise its option with regard to Chiron and Bayer. Vysis filed a motion to dismiss for lack of subject matter jurisdiction. But the district court denied this motion, noting that Gen-Probe was notified of its possible infringement of the '338 patent and that there was a history of litigation between the parties. The Court then upheld a jury determination of noninfringement, obviousness, and nonenablement of the '338 patent.

On appeal to the Federal Circuit, Gen-Probe argued that the Declaratory Judgment Act authorizes a suit where the parties dispute the rights and obligations under the license and where a licensee pays royalties only under protest. Vysis argued that Gen-Probe, as a patent licensee in good standing, does not have the ability to adjudicate the validity and scope of a licensed patent.

In analyzing the jurisdictional issue, the Federal Circuit reviewed its decisions in *C.R. Bard, Inc. v. Schwartz*, 716 F.2d 874 (Fed. Cir. 1983) ("*Bard*"), and *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969) ("*Lear*"). In *Bard*, the totality of the circumstances indicated that a controversy existed because the licensee ceased payment of the royalties due under the agreement—which constitutes a material breach of the agreement—and this nonpayment allowed Schwartz to terminate the agreement and file a lawsuit for infringement. In fact, Schwartz did file suit in state court for recovery of royalties due, which indicated his willingness to enforce his patent rights. Here, the Court found *Bard* distinguishable because Gen-Probe continued to pay its royalties throughout the DJ suit and expressly indicated it would do so in the letter it sent to Vysis the day before it filed that suit. It also exercised its option to extend the license for Chiron and Bayer. Thus, Gen-Probe did not materially breach its license agreement and Vysis could not and did not file suit for breach.

In addition to *Bard*, Gen-Probe and the district court relied on the *Lear* doctrine to determine that an actual controversy existed. *Lear* provides that a license does not per se bar the licensee from challenging the validity of a licensed patent. But the Federal Circuit concluded that Gen-Probe's payment of royalties under "protest" is not sufficient to create a case or controversy—other cases analyzing the *Lear* doctrine imply that a licensee must at least stop paying royalties (a material breach) before suing to challenge the validity or scope of licensed patents. Furthermore, the district court erred in relying on activities that occurred prior to the execution of the patent license, because the license included a covenant by Vysis not to sue. Thus, the license, unless materially breached, removed any reasonable apprehension by Gen-Probe of suit.

In concluding that there was no actual controversy between Gen-Probe and Vysis, the Court noted the negative impact of allowing suits like this to be adjudicated. Allowing attacks on patent validity and enforceability in situations like this would effectively defeat the value of contractual covenants common in patent-license agreements and would discourage patentees from granting such licenses. Here, Vysis bears the risk of having its patents found unenforceable while providing a covenant to Gen-Probe and third parties that it would not sue for infringement. But Gen-Probe, Chiron, and Bayer would benefit from the damages

cap effectively imposed on Vysis by the election to continue paying royalties in the event that a patent challenge is ultimately unsuccessful.

Patent Lacks Priority Where Technology Did Not Yet Exist

Salvatore J. Arrigo

[Judges: Rader (author), Archer, and Bryson (concurring in judgment)]

In *Chiron Corp. v. Genentech, Inc.*, No. 03-1158 (Fed. Cir. Mar. 30, 2004), the Federal Circuit affirmed a district court's denial of Chiron Corporation's ("Chiron") motion for JMOL and motion for a new trial, leaving intact a jury verdict that led to the invalidity of a patent concerning monoclonal antibodies. Chiron sued Genentech, Inc. ("Genentech") over Genentech's sales of Herceptin®, a humanized antibody for the long-term treatment of breast cancer, alleging infringement of U.S. Patent No. 6,054,561 ("the '561 patent"). After a jury trial, the district court had found that all claims in the '561 patent, which issued from an application filed in 1995, were invalid under 35 U.S.C. § 102 because none of the claims was entitled to priority of a chain of parent applications filed in 1984, 1985, and 1986. The jury had found that none of the parent applications satisfied both the written description and enablement requirement for the claims of the '561 patent.

The '561 patent claims particular monoclonal antibodies. The district court had construed the claims of the '561 patent to embrace chimeric and humanized antibodies that bind to a specific protein, termed HER2. Chimeric and humanized antibodies are created by recombinant DNA technology. Based on its construction, the district court had granted Chiron's motion for partial SJ of infringement. In addition, the parties stipulated that the '561 patent would be invalid under 35 U.S.C. § 102 based on intervening prior art if the '561 patent were denied priority to any of its parent applications.

The Federal Circuit affirmed the district court's denial of Chiron's motion for JMOL for two reasons. First, the Court found that neither the 1985 nor 1986 application enabled the claims of the '561 patent. The Federal Circuit adopted the district court's claim construction that the claims of the '561 patent embraced chimeric and humanized antibodies that bind to HER2. The Court indicated that the record showed that chimeric antibodies first appeared in the literature in May 1984, four months after the filing date of Chiron's 1984 application, and that the 1985 and 1986 applications provided no disclosure of either how to make or use chimeric antibodies. The Court determined that, since the technology was still nascent at the time of the 1986 application, undue experimentation would have been required. Thus, the Court held that the jury's conclusion that the 1985 and 1986 applications were not enabled was amply supported. Relying on *In re Hogan*, 559 F.2d 595 (C.C.P.A. 1977), the Court found that the district court had erred to the extent that it created an obligation for Chiron to enable nonexistent technology as of the 1984 application's filing date.

Second, the Court found that the 1984 application did not provide support for the new matter, chimeric antibodies claimed in the '561 patent. The '561 patent expressly defined the term "monoclonal antibody" as including chimeric and humanized antibodies, whereas the 1984 application did not. The Federal Circuit noted the term "monoclonal antibody" in 1984 apparently was not broad enough to encompass chimeric antibodies. The Court stated that Chiron could not possess and disclose the subject matter of chimeric antibodies that did not even exist at the time of the 1984 application.

The Court next turned to the district court's denial of Chiron's motion for a new trial, which Chiron based on errors in the jury instructions and errors in the admission of evidence. First, Chiron argued that the district court had erred by instructing the jury on Genentech's burden of proof without adding a jury instruction on the presumption of validity of the '561 patent. The Federal Circuit disagreed, stating that the presumption of validity and heightened burden of proving invalidity are different expressions of the same thing. Chiron further argued that the Chiron jury instructions on the law of written description and enablement were erroneous, but the Court found no errors in these instructions. Chiron also challenged three evidentiary rulings of the district court, but the Court did not find that these alleged errors warranted reversing the district court's denial of a new trial.

Judge Bryson concurred in the judgment, but disagreed with respect to whether the 1984 application enabled the chimeric antibodies claimed in the '561 patent. He indicated that the proper approach was to construe the claims as they would have been understood by the skilled artisan at the time the application was filed, and not construing them to reach as-yet-undeveloped technology that the applicant did not enable. Since Chiron was not seeking to construe its claims to preserve their validity, but arguing that the claims cover technology not existing at that time, he would hold the claims as nonenabled by the 1984 application.

Showing of Bad Faith Must Be Objective

Kenneth M. Lesch

[Judges: Dyk (author), Lynn, and Archer]

In *Globetrotter Software, Inc. v. Elan Computer Group, Inc.*, No. 03-1179 (Fed. Cir. Mar. 23, 2004), the Federal Circuit affirmed the district court's SJ that Ken Greer's state-law claims of tortious interference and unfair competition are preempted by federal patent law. The Federal Circuit vacated, however, the district court's grant of SJ that Elan Computer Group, Inc. ("Elan") does not infringe U.S. Patent No. 5,390,297 ("the '297 patent") assigned to Globetrotter Software, Inc. ("Globetrotter"), given errors in the district court's claim construction and issues of material fact concerning infringement.

In addition to the '297 patent, the suit involves U.S. Patent Nos. 5,386,369 ("the '369 patent") and 5,671,412 ("the '412 patent"), both also assigned to Globetrotter. The '297, '369, and '412 patents are directed toward a license-management system that permits a purchaser of software to use a particular application on more than one computer in a network, while preventing copyright infringement by not allowing the purchaser to use more copies of the software than it licensed. Globetrotter only alleges infringement of the '297 patent by Elan.

In response to the allegations of infringement, Greer filed state-law claims against Globetrotter alleging tortious interference and unfair competition. Greer alleges that while Rainbow Technologies, Inc. ("Rainbow") was negotiating the purchase of all of the outstanding shares of Elan stock, Globetrotter sent an e-mail and a letter to Rainbow suggesting that Elan infringed the '297, '369, and '412 patents. Greer alleges that Globetrotter notified Rainbow of the alleged patent infringement in bad faith solely to cause Rainbow to abandon the planned purchase of Elan. In fact, Rainbow did abandon the purchase at the time, but later acquired Elan on terms more favorable to Rainbow.

The Federal Circuit first turned to established law concerning federal preemption and ruled that Greer's state-law claims can survive federal preemption only to the extent that the claims are based on a showing of bad faith. The Federal Circuit based its holding on federal preemption and first amendment considerations. During trial, however, Greer only showed Globetrotter's subjective bad faith, such as through the timing of the e-mail suggesting infringement, but did not show objective bad faith by Globetrotter.

The Court concluded that Globetrotter's claim of infringement of the '297 patent was not objectively baseless, as shown by its reversal of the SJ of noninfringement. Thus, because of the lack of evidence of objective bad faith, the Federal Circuit upheld the district court's SJ dismissing the state-law claims.

The Court then resolved the infringement issues surrounding the '297 patent. Each of the asserted claims includes a limitation requiring a "license management means" to send "a message preventing" an external program from running when there are no available licenses for the requesting program. The dictionary defines "prevent" as "to keep from occurring; avert; hinder" or "to hinder or stop from doing something." The Federal Circuit determined, however, that the dictionary was unclear as to whether the message itself must actively stop the requesting program from running or whether the message can merely be a signal that keeps the requesting program from running when received.

To resolve the ambiguity, the Federal Circuit looked to the patent specification, which states that the system returns a status to the requesting program if no license is available. Reasoning that a claim interpretation that excludes a preferred embodiment from the scope of the claim "is rarely, if ever, correct," the Court concluded that the claim did not require actively preventing a program from running. Because Elan conceded that the accused product returns such a status message, the Federal Circuit vacated the district court's grant of SJ of noninfringement.

Foreign Sales Do Not Violate Permanent Injunction

Vince Kovalick

[Judges: Linn (author), Newman, and Prost]

In *International Rectifier Corp. v. Samsung Electronics Co.,* No. 02-1324 (Fed. Cir. Mar. 18, 2004), the Federal Circuit reversed a contempt order holding that Samsung Electronics Company, Ltd. and Samsung Semiconductor, Inc. (collectively "Samsung") and IXYS Corporation ("IXYS") had conspired to subvert an injunction preventing Samsung from making, using, selling, and importing infringing products in the United States.

International Rectifier Corporation ("IR") owns U.S. Patent No. 4,959,699 ("the '699 patent"). In previous litigation with Samsung, a permanent injunction was entered barring Samsung from acts that would infringe the '699 patent. The injunction

excepted products made by Samsung on a foundry basis for nonparty IXYS. The '699 patent is directed to vertical planar power metal-oxide semiconductor (VPPM) transistor devices.

Samsung then sold its power MOSFET business, except for certain fabrication of IXYS-design devices at Samsung's foundry in South Korea. Although IXYS sought to have Samsung import these devices into the United States under the exception to the injunction, Samsung refused. Instead, Samsung agreed to sell its uncut, unpackaged wafers that were precursors to the IXYS-designed devices to an IXYS subsidiary located in Germany.

Two years after they entered the permanent injunction, IR initiated contempt proceedings against Samsung and IXYS for violating the injunction based on sales in the United States. The Federal Circuit concluded that Samsung's actions did not take place within the United States and, therefore, did not violate the injunction. Moreover, Samsung and IXYS did not conspire to subvert the injunction, because their agreement pertains only to the manufacture and delivery of devices outside of the United States. Their agreement speaks nothing of importing the devices into the United States, and Samsung does not exercise control over IXYS's delivery activities. Samsung's knowledge that some IXYS products were imported into the United States is not sufficient to support an allegation of collusion. Moreover, there was no evidence that IXYS, a nonparty, was in active concert or participation with Samsung to further any U.S. sales, nor was there any evidence that IXYS was acting as an aider or abettor in subverting the preliminary injunction. Accordingly, the Federal Circuit ruled that Samsung's extraterritorial conduct did not violate the permanent injunction and reversed the contempt order.

Courts Not Free to Excuse Patentee from Consequences of Its Own Word Choice

Erica L. Barber

[Judges: Linn (author), Newman, and Prost]

In *International Rectifier Corp. v. IXYS Corp.*, No. 02-1414 (Fed. Cir. Mar. 18, 2004), the Federal Circuit reversed the district court's claim construction rulings, reversed-in-part and vacated-in-part a SJ that IXYS Corporation ("IXYS") had infringed two patents held by International Rectifier Corporation ("IR"), and remanded the case back to the district court for entry of judgment in IXYS's favor regarding certain claims found noninfringed as a matter of law and for further proceedings regarding other claims where factual issues remained.

This opinion reviewed rulings on three patents held by IR: U.S. Patent Nos. 4,959,699 ("the '699 patent"), 5,008,725 ("the '725 patent"), and 5,130,767 ("the '767 patent"). These patents relate to VPPM transistor devices manufactured by diffusing impurities into semiconductor wafers. The opinion focuses on the construction of three different claim terms: "polygonal," "annular," and "adjoining," and whether the district court's construction of these terms was overbroad. The district court construed all three claim terms and found IXYS liable for infringement of all asserted claims. The Federal Circuit reviewed the intrinsic evidence and found the district court's construction of all three claim terms to be erroneous.

The Federal Circuit determined that the district court's construction of the term "polygonal" was incorrect because it went beyond the ordinary dictionary definition of the term when there was no support in the written description for such a construction. IR argued that one skilled in the art would understand "polygonal" to encompass shapes with curved corners because the "polygonal base regions" recited in the claims are formed by the diffusion process, which blurs the outline of the regions. The Federal Circuit rejected this argument and found that although claim terms must be considered from the perspective of one skilled in the art, recognition of these diffusion effects did not warrant redefinition of the term. Because the patentee was aware of the diffusion effects, yet still chose the word "polygonal" without modification or qualification, the patentee was held to the ordinary definition of the term.

The Federal Circuit also found the district court's construction of the term "annular" to be overbroad because it went beyond the definition provided by the patentee in the written description. The Court found that although the patentee had trumped the ordinary meaning of the term by acting as his own lexicographer, the patentee was held to the meaning provided in the written description.

Finally, the Federal Circuit found the district court's construction of the term "adjoining" to be overbroad because the district court adopted the definition of the synonym "adjacent." The dictionary cited by the district court makes an express distinction between the terms "adjoining" and "adjacent," and the Federal Circuit found that the district

court was not free to disregard this distinction. The Federal Circuit pointed out that had the patentee meant "adjacent," he could have used that word. Instead, the patentee chose "adjoining," and the patentee was held to his word choice.

The Federal Circuit reversed the SJ of infringement regarding the claims containing the term "adjoining" and remanded the case for entry of judgment in IXYS's favor, because it found that no reasonable jury could find these claims infringed based on the facts stipulated to by the parties. The Federal Circuit, however, vacated the SJ of infringement regarding the claims containing the terms "polygonal" and "annular," and remanded the case for further proceedings because it found that although the structure of the accused device was undisputed, a factual issue remained as to how the new claim construction applies to these claims.

One Ingredient, One Term

Geoffrey Mason

[Judges: Rader (author), Bryson, and Dyk]

In *Arnold Partnership v. Godici*, No. 03-1339 (Fed. Cir. Mar. 24, 2004), the Federal Circuit affirmed the district court's denial of term extension for U.S. Patent No. 4,587,252 ("the '252 patent"), which claims, inter alia, compositions comprising hydrocodone and ibuprofen. Term extension for the '252 patent would be proper under 35 U.S.C. § 156 "if . . . the permission for the commercial marketing or use of the product . . . is the first permitted commercial marketing or use of the product . . . ." 35 U.S.C. § 156(a)(5)(A). More specifically, term extension would have been proper if the statutory term "product" referred to the claimed combination of hydrocodone and ibuprofen, rather than these individual active ingredients, because both of these ingredients had been previously marketed individually, whereas the combination had not.

The Federal Circuit held that "product" under the statute referred to "the active ingredient," not to the "active ingredient[s]," because that was precisely how the statute defined the term "product": as singularly referring to "the active ingredient." *See* 35 U.S.C. § 156(f)(1)(A) and (f)(2)(A). The Court found no statutory history that contradicted this "straightforward reading of the statute." The Court also rejected the implication that a provision for calculating the period of the extension, 35 U.S.C. § 156(c), which referred to the "review period for the approved product," somehow required "a definition in harmony with the product approved by [the] FDA," contrary to the plain language of the statute. Accordingly, the Federal Circuit affirmed the district court's denial of term extension under 35 U.S.C. § 156.

Intrinsic Evidence Prevents Collateral Estoppel on Claim Construction

Deborah J. Acker

[Judges: Bryson (author), Newman, and Prost]

In *Monsanto Co. v. Bayer Bioscience N.V.*, No. 03-1201 (Fed. Cir. Mar. 30, 2004), the Federal Circuit reversed rulings of SJ against the patent holder based upon inequitable conduct, collateral estoppel, and noninfringement.

Aventis CropScience N.V. ("Aventis"), a predecessor of Bayer Bioscience N.V. ("Bayer"), owned four patents-in-suit that claim a variety of methods and products relating to the insertion of bacterial DNA into plants to impart resistance to certain insects. Monsanto Company ("Monsanto") filed a DJ proceeding alleging that the four patents were unenforceable and that various claims of the patents were invalid. Aventis counterclaimed, alleging that Monsanto infringed each of the four patents. Monsanto then filed SJ motions requesting that the four patents-in-suit be held unenforceable, invalid, and not infringed. The district court granted the motions.

On the issue of inequitable conduct, the district court concluded that Aventis had filed a false declaration concerning certain tests with the PTO during prosecution of one of the patents. At the district court, the Declarant filed an affidavit explaining the nature of certain test results and their relationship to the conclusions set forth in the allegedly false declaration. The district court rejected the explanation provided in the affidavit. On appeal, the Federal Circuit concluded that a factual dispute about the truth of the PTO declaration existed that should not have been resolved on SJ. The Court also emphasized that the affiant's assertion of no intent to deceive the PTO was based on his detailed explanation of his interpretation of the disputed test results, rather than a conclusory declaration of lack of intent to deceive. Thus, the Federal Circuit found this case satisfied the requirement described in *Paragon Podiatry Laboratory, Inc. v. KLM Laboratories, Inc.*, 984 F.2d 1182, 1191 (Fed. Cir. 1993), that the affi-

ant who seeks to avoid SJ must at least state facts supporting a plausible justification or excuse for the misrepresentation.

In considering the collateral-estoppel effect of certain claim constructions, the Federal Circuit found it improper for the district court to apply the construction from a previously litigated case without examining the intrinsic evidence specific to the patents in the current suit. In the previously litigated case, *Plant Genetic Systems, N.V. v. DeKalb Genetics Corp.*, 175 F. Supp. 2d 246 (D. Conn. 2001), *aff'd*, 315 F.3d 1335 (Fed. Cir. 2003), the district court held that the patent in that suit enabled the transformation (insertion of the "bar" gene, which would increase the plant's resistance to certain herbicides) of dicotyledonous ("dicot") plants but not monocotyledonous ("monocot") plants. Accordingly, the Court in *Plant Genetic Systems* ruled that several of the asserted claims were not enabled and that the remainder had to be construed to be limited to dicots, and not to cover monocots such as corn.

Because Bayer's predecessor had litigated and lost on the question whether corn could be genetically transformed by *Agrobacterium* as of 1987, the district court here found that Bayer could not argue that corn could be genetically transformed by that means as of 1986, the priority date for the patents at issue in this case. Based on that ruling, the district court held that Monsanto's corn products did not infringe any of the asserted claims of U.S. Patent No. 5,254,799 ("the '799 patent"), one of the patents-in-suit.

Disagreeing, the Federal Circuit noted that the specifications in the instant case differ significantly from the specification of the patent at issue in the *Plant Genetic Systems* case. Because similar terms can have different meanings in different patents depending on the specifics of each patent, the claim construction requires consideration of the intrinsic evidence relating to the '799 patent, which was not at issue in the *Plant Genetic Systems* case. Citing passages of the '799 patent specification and referencing portions of the prosecution history, the Federal Circuit found that intrinsic evidence for the '799 patent supports a construction that encompasses monocots. Accordingly, a SJ finding of invalidity and noninfringement based upon the collateral-estoppel effect of *Plant Genetic Systems* was improper.

Finally, the Federal Circuit concluded that the district court had erred in its claim construction when it limited the term "Bt2" to a toxin derived from a particular source, and, therefore, SJ of noninfringement based on that claim construction was erroneous. The Federal Circuit disagreed that two figures of U.S. Patent No. 5,545,565 indicated that the "Bt2 toxin" was limited to proteins encoded by genes derived from the berliner 1715 strain. Rather, the Court concluded that the figures show that proteins expressed by genes from the berliner 1715 strain have the claimed structure, while proteins expressed by genes from other strains of Bt may have structures different from the "Bt2 toxin." The Federal Circuit concluded that neither the specifications of the patents at issue nor their prosecution histories suggest that the term must be limited to a toxin derived from a particular source. The SJ finding of noninfringement was reversed.

Court Reverses Parent Company's Release from Liability

Megan M. Sugiyama

[Judges: Lourie (author), Clevenger, and Schall]

In *Unova, Inc. v. Acer Inc.*, No. 03-1244 (Fed. Cir. Mar. 31, 2004), the Federal Circuit reversed the district court's SJ in favor of Hewlett-Packard Company's ("HP") affirmative defense of release, because a settlement agreement at issue did not release HP from liability for patent infringement.

Unova, Inc. ("Unova") owns patents that relate to "smart battery" management technology. In other litigation, Unova had sued Compaq Computer Corporation ("Compaq") for infringement of its smart-battery patents and entered into a settlement agreement to resolve those claims. Pursuant to that agreement, Unova granted a license and a covenant-not-to-sue for "Compaq products," and released Compaq and its parents from liability for infringement.

After entry of the settlement agreement, HP became Compaq's parent. Unova then filed suit against HP for infringement of its smart-battery patents. The district court granted HP's motion for SJ, concluding that the release in the Unova/Compaq settlement agreement applied to HP because the release of Compaq's "parents" was not limited to Compaq's parents at the time of the agreement.

On appeal, the Federal Circuit concluded that the district court's construction of the settlement agreement was incorrect and consequently did not release HP from liability for infringement of Unova's patents. Applying California contract law, the Federal Circuit found that HP bore the burden of

showing that the contracting parties intended to release HP in order to establish rights under the release agreement. According to the Federal Circuit, however, the plain meaning of the settlement agreement language could not be read as releasing HP from liability for infringement prior to its acquisition of Compaq. For instance, the release provision was written in the present tense and referred to acts of past infringement, and consequently did not refer to Compaq's future parent. Furthermore, whereas other provisions of the agreement specifically made reference to future entities, such as "past, present, and future officers . . . ," the release provision lacked such modification of the term "parents" and consequently did not reference future entities.

In addition, the Federal Circuit noted that its interpretation of the release provision was consistent with the structure of the settlement agreement as a whole. In particular, the covenant-not-to-sue and license provisions expressly applied only to Compaq-branded products, whereas the release provision was not similarly restricted to Compaq-branded products. The Federal Circuit found it unlikely that Unova reserved its right to sue HP for acts of infringement that occurred after it became Compaq's parent, but also released HP from liability for identical acts that occurred before it became Compaq's parent. Furthermore, other provisions demonstrated that Unova and Compaq had contemplated that Unova and HP might reach a separate agreement in that they set forth terms applicable in the event that Unova and HP reached a third-party license.

In addition to the four corners of the settlement agreement, the circumstances surrounding the settlement agreement also supported the Federal Circuit's interpretation of the release provision. In particular, the fact that Unova and HP were engaged in a separate litigation at the time of the Unova/Compaq agreement further suggested that Unova and Compaq would not have intended to release HP from its past infringement liability in an unrelated action.

Given that the settlement agreement, read as a whole, expressed Unova's and Compaq's intent to not release HP from liability for patent infringement, the Federal Circuit concluded that consideration of extrinsic evidence was unnecessary. For those reasons, it held that Unova was entitled to partial SJ on HP's affirmative defense of release and remanded the case for further proceedings.

Court Agrees That Jury Verdict of Infringement Lacks Substantial Evidence

Ashley N. Parker

[Judges: Linn (author), Schall, and Bryson]

In *Summit Technology, Inc. v. Nidek Co.,* No. 03-1214 (Fed. Cir. Mar. 26, 2004), the Federal Circuit affirmed a district court's entry of JMOL in favor of Defendants Nidek Company, Ltd.; Nidek, Inc.; and Nidek Technologies, Inc. (collectively "Nidek"), following a jury verdict that found the asserted claims literally infringed.

Summit Technology, Inc. ("Summit") and Nidek are competitors in the field of laser eye surgery. Summit is the owner of U.S. Patent Nos. 4,941,093 ("the Marshall '093 patent") and 4,973,330 ("the Azema '330 patent"), which are directed to laser eye surgical apparatuses and techniques to correct vision problems. Summit filed suit against Nidek alleging that Nidek's EC-5000 Eximer Laser System ("EC-5000") infringed claims of both the Marshall '093 and the Azema '330 patents. Nidek counterclaimed, alleging that the patents-in-suit were invalid and not infringed. A jury found that Nidek infringed all asserted claims of the patents-in-suit, that the Marshall '093 patent was not invalid as anticipated, and that Nidek's infringement was willful. Following the verdict, Nidek filed a renewed motion for JMOL as to the jury's finding of infringement and willfulness, and the district court granted Nidek's motion.

Concerning the Marshall '093 patent, the parties disputed whether Summit presented substantial evidence to support the jury's finding that Nidek infringed the patent's "beam dimension control means" limitation. Under the district court's claim construction, this limitation functions to vary the area of the cornea exposed to the laser pulses, while the energy per unit area of each pulse that hits the eye remains substantially the same. The district court had found that pulses delivered to the cornea have substantially the same energy per unit area if they ablate approximately the same depth of corneal material. Thus, to establish infringement under the district court's claim construction, Summit was required to prove that each pulse delivered to the cornea in Nidek's EC-5000 device ablated approximately the same depth of corneal material as the aperture size varied. The district court entered JMOL because it found that Summit had failed to present such evidence.

The Federal Circuit affirmed the district court's ruling, not on the grounds cited by the district court, but on the basis of Nidek's alternative argument. Nidek alternatively argued that it did not infringe because its EC-5000 device has Gaussian or bell-shaped energy distributions that ablate non-uniform depths of corneal material, rather than ablating approximately the same depth of corneal material as required by the district court's claim construction. The Federal Circuit found that evidence at trial supported this conclusion. Nidek's statements to the FDA concerning the operation of its EC-5000, cross-examination testimony of Summit's expert, and Nidek's defense exhibits all established that the laser pulses were Gaussian-shaped.

Concerning the Azema '330 patent, the parties disputed whether substantial evidence supported the jury's finding that Nidek infringed the patent's "means for focusing" limitation. Under the district court's claim construction, this limitation functions to focus the beam to direct a spot of light onto the cornea, where the area of the spot is at least as large as the area of the cornea one wishes to operate on. Summit argued that it presented evidence of Nidek's infringement under three separate theories: (1) that the area of the cornea one wishes to operate on is dynamic and changes throughout the operation; (2) even if the area is static, the device physically combines individual laser pulses into a composite pulse that covers the entire area; and (3) Nidek's description of its EC-5000 as a "large-area" or "wide-area" ablation system implies that it infringes.

The Federal Circuit dismissed Summit's first theory as misplaced. The Court found that it was irrelevant whether the light beam was larger than the light spot produced on the cornea at certain points of the procedure. The limitation referred to the entire area of the cornea treated during the operation, not the area undergoing ablation at any one time. The Court further found that Nidek's FDA submission, and all of Summit's proffered trial testimony, supported a conclusion that physical combinations of separate laser pulses were technologically impossible. Finally, Nidek's expert explicitly stated at trial that the EC-5000 was not a "wide-area" ablation system within the district court's construction. Instead, he emphasized that it was impossible to combine the light spots from the individual laser pulses.

The Federal Circuit found that Summit failed to present more than a mere scintilla of evidence to support a jury verdict that Nidek infringed either the Marshall '093 patent or the Azema '330 patent. Thus, the Court affirmed the district court's JMOL of noninfringement in favor of Nidek.

Substantial Noninfringing Uses Lead to No Indirect Infringement

James T. Wilson

[Judges: Gajarsa (author), Rader, and Bryson]

In *Dynacore Holdings Corp. v. U.S. Philips Corp.*, No. 03-1305 (Fed. Cir. Mar. 31, 2004), the Federal Circuit affirmed the district court's SJ ruling that more than twenty electronic manufacturers did not indirectly infringe a local area network (LAN) patent by selling network products capable of substantial noninfringing uses.

Dynacore Holdings Corporation ("Dynacore") alleged that companies whose products incorporate technology that facilitates the implementation of LANs compliant with the IEEE 1394 Standard for a High Performance Serial Bus ("IEEE 1394") infringe U.S. Patent No. 5,077,732 ("the '732 patent"). The IEEE 1394 Standard, like the '732 patent, teaches network designers how to connect devices with differing capabilities to a single LAN without sacrificing enhanced or optimized capabilities possessed by some but not all devices.

08 | page

All five of the independent claims of the '732 patent require "at least three nodes" that are all interconnected as "equal peers in a single network configuration." In a prior litigation involving the '732 patent, the term "equal peers" was construed to require that "all data frames transmitted by each node are heard by all other nodes."

The district court found that IEEE 1394 networks did not include the "equal peers" limitation because there are circumstances in which data frames are not transmitted to all of the other nodes on the IEEE 1394 network.

The Federal Circuit found that Dynacore was collaterally estopped from challenging the earlier claim construction of "equal peers." Accordingly, it turned to a comparison of the claims to the accused devices.

When evaluating infringement, the panel found that Dynacore sought to establish the Defendants' broad vicarious liability by showing that a particular configuration of Defendants' products, compliant with the IEEE 1394 Standard, would directly infringe the '732 patent. The Federal Circuit rejected that attempt and explained that precedent requires that the mere sale of a product capable of substantial noninfringing uses does not constitute indirect infringement of a patent. As such, Dynacore must either demonstrate that LANs compliant with the IEEE 1394 Standard necessarily infringe the '732 patent, or must point to a specific instance of direct infringement and restrict its suit to liability stemming from that specific instance.

Dynacore could do neither. The Federal Circuit concluded that Dynacore engaged in speculation and did not point to even a single network that both complies with the IEEE 1394 Standard and meets the "equal peers" limitation. Having shown no direct infringement, Dynacore could not prove indirect infringement, so the Court affirmed the SJ.

Advertised Use of Patented Product Supports Rule 11 Basis for Suit

Eric W. Adcock

[Judges: Lourie (author), Archer, and Clevenger]

In *Q-Pharma, Inc. v. Andrew Jergens Co.*, No. 03-1184 (Fed. Cir. Mar. 8, 2004), the Federal Circuit affirmed the district court's denial of motions by The Andrew Jergens Company ("Jergens") for sanctions against Q-Pharma, Inc. ("Q-Pharma").

Q-Pharma owns U.S. Patent No. 4,654,373 ("the '373 patent"), which covers methods of treating damaged tissue in humans and animals by administering therapeutically effective amounts of Coenzyme Q10 ("Q10") in admixture with a pharmaceutically acceptable carrier. Prior to filing suit, Q-Pharma acquired a sample of a Jergens lotion advertised as having the "natural power of Q10." The lotion's label prominently displayed the term "Q10" and touted its benefits. Although no one at Q-Pharma conducted a chemical analysis of the Jergens lotion, Q-Pharma believed—based on its attorneys' claim construction and the lotion's advertising and labeling—that it had a viable infringement claim.

During discovery, Q-Pharma requested information from Jergens about the contents of its lotion. Jergens refused to produce that information and instead filed a motion for SJ of noninfringement, in which it revealed that its lotion contained only 0.00005% Q10 by weight. Upon learning that information, Q-Pharma voluntarily dismissed its infringement suit.

Jergens brought motions for sanctions under Rule 11 and for attorneys' fees under 35 U.S.C. § 285, which the district court denied. The district court concluded that although Q-Pharma had not chemically analyzed the Jergens lotion before filing suit, Q-Pharma's presuit investigation was nevertheless sufficient. The district court reached that conclusion because Q-Pharma's attorneys had construed the '373 patent claims and compared them to the Jergens lotion by relying on Jergens's label and advertising statements, which suggested that the lotion contained a therapeutically effective amount of Q10. The district court rejected Jergens's argument that Q-Pharma was on notice that the '373 patent claims were invalid in view of previous invalidity challenges, because several companies had taken licenses under the patent. The district court also concluded that Q-Pharma's suit was not objectively baseless and, therefore, granted SJ dismissing Jergens's antitrust counterclaim, which had been based on Jergens's allegation of "sham" litigation. The district court denied Jergens's requests for additional discovery related to the antitrust counterclaim.

The Federal Circuit affirmed the district court's decision not to impose sanctions under Rule 11. The Court rejected Jergens's alternative arguments that Q-Pharma either had not construed the '373 patent claims or had construed them frivolously. Q-Pharma's attorney's declaration rebutted the first argument, and the '373 patent's intrinsic evidence refuted the second. The Federal Circuit noted that Q-Pharma's presuit investigation could have been more thorough by including a chemical analysis of the Jergens lotion, but nevertheless found the investigation sufficient because Q-Pharma had performed an adequate infringement analysis. The Federal Circuit also found unpersuasive Jergens's argument that Q-Pharma should have known the '373 patent was invalid, citing the statutory presumption of validity and the fact that several companies had taken licenses under the patent.

Similar reasons supported the Federal Circuit's affirmance of the denial of attorneys' fees. The Court concluded that Q-Pharma's infringement suit was neither frivolous nor unjustified. Jergens argued on appeal that Q-Pharma had litigated in bad faith by changing its legal theory of infringement after Jergens filed its motion for SJ and by threatening to "blackmail" Jergens with a false-advertising action before the Federal Trade Commission. But the Federal Circuit found the former accusation irrelevant and the latter unsupported by the record.

The Federal Circuit also affirmed the SJ dismissal of Jergens's antitrust counterclaim. The Court considered Q-Pharma's infringement suit not to have been objectively baseless, which precluded application of the "sham" exception to patentee antitrust immunity. The Federal Circuit also affirmed the district court's decision to deny Jergens's requests for discovery on the issue. That discovery would have only been relevant to Q-Pharma's subjective motivation for bringing suit, which became irrelevant as a matter of law once the suit was determined not to have been objectively baseless.

District Court's Invalidity Ruling for Indefiniteness "Surrenders" to Federal Circuit's Claim Construction

Chi H. Kang

[Judges: Bryson (author), Rader, and Prost]

In *Bancorp Services, L.L.C. v. Hartford Life Insurance Co.*, No. 03-1181 (Fed. Cir. Mar. 1, 2004), the Federal Circuit reversed the district court's SJ ruling of invalidity under 35 U.S.C. § 112, ¶ 2.

Bancorp Services, L.L.C. ("Bancorp"), owner of U.S. Patent No. 5,926,792 ("the '792 patent"), filed a suit against Hartford Life Insurance Company ("Hartford"). The '792 patent, titled "System for Managing a Stable Value Protected Investment Plan," describes and claims a system for administering and tracking the value of life insurance policies in separate accounts, including policies containing stable value protected investments.

Unlike traditional separate account policies, a stable value protected investment system allows policy owners to report a more predictable, stable value on their financial statements. Under a stable value protected investment system, a third-party guarantor guarantees a particular value for a life insurance policy, regardless of its market value, should the policy have to be paid out prematurely.

Two years into the litigation, the district court granted Hartford's SJ motion, holding the claims of the '792 patent invalid because the phrase "surrender value protected investment credits" was indefinite. The district court rejected Bancorp's argument that the term "surrender value protection" had the same meaning as the term "stable value protection," which is defined in the specification and used in the claims. The court also rejected the testimony of Bancorp's expert because he was not shown to be an expert in life insurance administration.

On appeal, the Federal Circuit explained that claims are invalid for indefiniteness only if reasonable efforts at claim construction prove futile. Otherwise, if the meaning of the claim is discernable, even though the task may be formidable and the conclusion may be one over which reasonable persons will disagree, the claim avoids invalidity on indefiniteness grounds.

Applying these principles to the facts of the case, the Federal Circuit reversed the district court's SJ ruling and held that the meaning of the term "surrender value protected investment credits" was reasonably discernable. While noting that the term was not defined in the patent nor in any industry publication, it nevertheless found the term's components to have well-recognized meaning, allowing the reader to infer the term's meaning with reasonable confidence. First, it found that the component term "surrender value" had a clear meaning to a person skilled in the art. Next, it found the meaning of the component term "protected investment" from the specification and extrinsic evidence. Finally, it found the meaning of the component term "credits" from the specification. Considering these component terms together, it arrived at the claim construction proposed by Bancorp, namely, that the term "surrender value protected investment credits" had essentially the same meaning as the term "stable value protected investment."

While the Federal Circuit concluded that the intrinsic evidence alone merited a reversal of the SJ ruling of invalidity, it commented on the district court's flawed analysis on certain extrinsic evidence. First, it commented that the district court should have considered the testimony of Bancorp's expert because he was an expert in the use of stable value protected investments in the context of variable life insurance policies. Furthermore, it concluded that the district court should also have considered Hartford's internal use of the term "surrender value protected investment" because, while not public in nature, the use was relevant to show that the term had a discernable meaning to at least some persons practicing in the field.

Exceptions in 35 U.S.C. § 271(g)(1) and (2) Do Not Apply as Defenses to ITC Actions

Vince Kovalick

[Judges: Newman (author), Bryson, and Linn]

In *Kinik Co. v. International Trade Commission*, No. 02-1550 (Fed. Cir. Mar. 25, 2004), the Federal Circuit reversed a decision by the ITC, concluding that on the correct claim construction, the process of U.S. Patent No. 5,620,489 ("the '489 patent") was not practiced in Taiwan to produce certain abrasive articles what were imported by the Kinik Company ("Kinik") into the United States.

The '489 patent is directed to a method for the manufacture of an abrasive article by first making a soft and flexible preform from a mixture containing a liquid binder, powdered matrix material, and abrasive particles, and then sintering the preform. Kinik argued that the claims, correctly construed, are limited to preform mixtures that contain a larg-

er volume of liquid binder composition than powdered matrix material. The Federal Circuit reviewed the patent specification and the prosecution history, and concluded that the claims were limited as suggested by Kinik. The word "mixture" in the claims has the scope given in the specification, for it is clear that no broader scope was contemplated or intended, according to the Federal Circuit. Because Kinik's preform process uses a volume of liquid binder that is significantly lower than the volume of matrix powder, the Federal Circuit found no infringement.

The Federal Circuit also affirmed the ITC's ruling that the defenses available under 35 U.S.C. § 271(g) do not apply to ITC actions under § 1337. The Court reviewed the ITC's interpretation of the statute, the legislative history, and certain precedent and concluded that the defenses of 35 U.S.C. § 271(g)(1) and (2) were not intended to and should not apply as defenses to § 1337(a) actions.

In **Last month at The Federal Circuit**, certain terms, titles, and names of federal agencies that are frequently referred to in text, appear in abbreviated forms or as acronyms. These abbreviated forms and acronyms are listed below.

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 & Drug Administration
IDS	Information Disclosure Statement
IP	Intellectual Property
ITC	International Trade Commission
JMOL	Judgment as a Matter of Law
MPEP	Manual of Patent Examining Procedure
PCT	Patent Cooperation Treaty
PTO	United States Patent and Trademark Office
SEC	Securities and Exchange Commission
SJ	Summary Judgment
SM	Special Master