

# Last Month at the Federal Circuit

November 2007

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- In *Tafas v. Dudas*, No. 1:07cv846 (E.D. Va. 2007), the district court recently ordered the parties to submit cross-motions for SJ and has scheduled a hearing on those motions for February 8, 2008. In that case, the district court had issued a preliminary injunction on October 31, 2007, enjoining the scheduled November 1 enforcement of the new PTO rules relating to patent continuation applications and limitations on the numbers of claims that may be filed.
- In *Nilssen v. Osram Sylvania, Inc.*, No. 06-1550 (Fed. Cir. Oct. 10, 2007), the Federal Circuit affirmed the district court's holding that fifteen patents were unenforceable due to inequitable conduct. The Court found that the district court had not abused its discretion in holding these patents unenforceable for many reasons, including the patentee's failure to disclose during prosecution the relationship of an affiant to the patentee, for misrepresenting small entity status during payment of maintenance fees, for including incorrect claims of priority, and for failing to disclose the existence of litigation and material prior art references. In so finding, the Federal Circuit stated that "[m]istakes do happen, but inadvertence can carry an applicant only so far." Slip op. at 19. See the full summary in this issue.

## Multistep Process Not Infringed When the Patentee Performed Some of the Claimed Steps, and Claims Were Not Enabled When a Patent Was Filed Before Transformation of Cells Covered by the Claims Was Possible

*Anna Ziskind*

**Judges: Rader (author), Gajarsa, O'Malley (District Judge sitting by designation)**

**[Appealed from D. Del., Chief Judge Robinson]**

In *Monsanto Co. v. Syngenta Seeds, Inc.*, No. 06-1472 (Fed. Cir. Oct. 4, 2007), the Federal Circuit affirmed the district court's grant of SJ of noninfringement in favor of Syngenta Seeds, Inc., Syngenta Biotechnology, Inc., Garst Seed Company, Golden Harvest Seeds, Inc., Garwood Seed Co., Golden Seed Co., LLC, Sommer Bros. Seed Company, Thorp Seed Co., and JC Robinson Seeds, Inc. (collectively "Syngenta") with respect to U.S. Patent Nos. 5,538,880 ("the '880 patent") and 6,013,863 ("the '863 patent"), and its grant of SJ that claims 1, 5, and 6 of U.S. Patent No. 4,940,835 ("the '835 patent") were invalid under 35 U.S.C. § 112 for lack of enablement.

Monsanto Company owns the '835 patent, whereas Dekalb Genetics Corporation ("Dekalb"), Monsanto's wholly owned subsidiary, owns the '880 and '863 patents ("the Lundquist patents").

All three patents are directed to technologies for producing transgenic corn ("GA21"). Monsanto and Dekalb (collectively "Monsanto") alleged that Syngenta used GA21 seed acquired from Monsanto's licensees to produce further progeny containing the GA21 trait, thereby infringing the claims of the '835 patent, claims 4-9 of the '880 patent, and claims 5 and 6 of the '863 patent. Noting that Dekalb itself performed the three steps of the independent claims of the Lundquist patents, Syngenta argued that it had not infringed those patents because it did not carry out all the steps of the asserted claimed processes. Syngenta also argued that the '835 patent application did not enable the asserted claims of the '835 patent. After claim construction, the district court granted Syngenta's motions for SJ, finding the Lundquist patents not infringed because the patent holder performed the initial steps of the claimed processes, and finding claims 1, 5, and 6 of the '835 patent invalid for lack of enablement. Monsanto appealed.

On appeal, Monsanto argued that claim 4 of the '880 patent, which recites "[a] process comprising obtaining progeny from a fertile transgenic plant *obtained by the process of claim 1,*" is an independent claim, thus not requiring an alleged infringer to perform the steps of claim 1. Rejecting this argument, the Federal Circuit noted that the district court construed claims 4-9 of the '880 patent and claims 5 and 6 of the '863 patent as dependent from claim 1 of their respective patents. It observed that claims 5-9 of the '880 patent and claims 5 and 6 of the '863 patent, which used the form "[t]he process of claim . . .," fit the traditional dependent format. In addition, the Court noted that

claim 4 of the '880 patent featured a format closely following the traditional dependent format and that although the format of claim 4 suggested the correctness of the district court's construction, it did not answer the entire question.

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“[I]nfringement of a multi-step method claim cannot lie by the performance of a single step after issuance of the patent when the initial steps were performed prior to issuance.” Slip op. at 12-13.

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The Federal Circuit noted that to determine whether a claim is dependent upon another, the claim must be examined to determine if it “both refers to an earlier claim and further limits that referent.” Slip op. at 7 (citing 35 U.S.C. § 112, ¶ 4). It added that a claim's status as dependent or independent depends on the substance of the claim in light of § 112, ¶ 4, and not the form alone. Applying these principles, the Court noted that claim 4 expressly recited the process of claim 1 and specifically required a fertile transgenic plant obtained by the performance of the steps in claim 1. It noted that claim 4 further included the additional step of obtaining progeny and, thus, incorporated the format specified by the statute for dependent claims. The Court added that although in a somewhat unusual format, claim 4 was dependent from claim 1 because it only stood if all three steps recited in claim 1 had been performed.

The Federal Circuit also looked to the prosecution history of the '880 patent to ascertain the scope of claim 4. It noted that originally filed claim 30, which corresponds to patent claim 4, was incontestably a dependent claim and that both Monsanto and the examiner indicated subsequent amendments to original claim 30 did not introduce new matter and were directed to matters of form. Therefore, the Federal Circuit concluded that the district court properly found claims 4-9 of the '880 patent and claims 5 and 6 of the '863 patent as dependent.

The Federal Circuit also rejected Monsanto's argument that, even if the asserted claims of the Lundquist patents were dependent claims, Syngenta was still liable for infringement under 35 U.S.C. § 271(a) or (g) because each limitation of the independent claims of the Lundquist patents had

been performed, albeit by Dekalb, not Syngenta. The Court noted that this argument could not prevail in light of its decision in *Wahpeton Canvas Co. v. Frontier, Inc.*, 870 F.2d 1546, 1552 (Fed. Cir. 1989), which explained that “[o]ne may infringe an independent claim and not infringe a claim dependent on that claim,” but that “[t]he reverse is not true.” Slip op. at 11. In addition, observed the Court, Monsanto's argument was also inconsistent with the basic rule for infringement, which states that “[f]or infringement of a process invention, all of the steps of the process must be performed, either as claimed or by an equivalent step.” *Id.* (alteration in original) (citation omitted). Because Monsanto itself performed some of the claimed steps, the Court found no error in the district court's ruling as to infringement under § 271(a).

The Federal Circuit reached the same result with respect to Monsanto's claim of infringement under § 271(g), finding that infringement was not possible under § 271(g) when Monsanto itself performed the first three steps of the claimed process before the issuance of the patent. It observed that “infringement of a multi-step method claim cannot lie by the performance of a single step after issuance of the patent when the initial steps were performed prior to issuance.” *Id.* at 12-13. Accordingly, the Court affirmed the district court's judgment that Syngenta had not infringed claims 4-9 of the '880 patent and claims 5 and 6 of the '863 patent.

The Federal Circuit also affirmed the district court's holding of invalidity that claims 1, 5, and 6 of the '835 patent were invalid under § 112 for lack of enablement. The Court observed that these claims recited “plant cells” and that flowering plants can be broadly categorized as monocotyledons (“monocots”) and dicotyledons (“dicots”). It found that the district court correctly construed claim 1 of the '835 patent to require the claimed gene to function in any plant cell, including both dicots and monocots. In agreeing with the district court's construction, the Federal Circuit relied on its decision in *In re Vaeck*, 947 F.2d 488, 490 (Fed. Cir. 1991), where claim language referring to a gene capable of being expressed in cyanobacteria cells was construed to require the claimed gene to function in all cyanobacteria. In addition, the Court found that the '835 patent was filed before transformation of monocot cells was possible and that, therefore, those skilled in the art could not

transform a monocot plant cell as of the filing date of the patent application. Accordingly, it concluded that the district court correctly granted SJ that claims 1, 5, and 6 were invalid for lack of enablement.

Finally, the Federal Circuit addressed Monsanto's request that it vacate certain claim constructions proposed by Syngenta and that were adopted by the district court in a footnote. The Court noted that because none of the terms covered by the footnote were on appeal, it need not reach that issue.

## The PTO Can Only Extend a Patent Term in the Interim Under 35 U.S.C. § 156(e)(2) When the Patent Would Expire Before a Denial of an Extension Under § 156(d)(1)

*Krystyna Colantoni*

**Judges: Michel, Prost, Moore (author)**

**[Appealed from D. Del., Chief Judge Sleet]**

In *Somerset Pharmaceuticals, Inc. v. Dudas*, No. 07-1447 (Fed. Cir. Oct. 4, 2007) (precedential opinion), the Federal Circuit dismissed Somerset Pharmaceuticals, Inc.'s ("Somerset") request to compel the PTO to issue a decision as moot and affirmed the district court's denial of Somerset's motion for a preliminary injunction seeking to compel the PTO to grant its request for an interim patent term extension.

Somerset owns U.S. Reissue Patent No. RE 34,579 ("the '579 patent"), which was set to expire on August 18, 2007. Somerset obtained marketing approval from the FDA for its drug product EMSAM®, a transdermal pharmaceutical patch. A method of treating depression using that patch is allegedly covered by the '579 patent.

Somerset filed a Patent Term Extension Application with the PTO on April 27, 2006, seeking to extend the term of the '579 patent under 35 U.S.C. § 156(d)(1), and filed a request for an interim extension under 35 U.S.C. § 156(e)(2) on February 21, 2007. Shortly thereafter, Somerset filed suit in the district court and moved for a preliminary injunction, seeking to compel the PTO to act on, and grant, its request for an interim extension. The district court denied Somerset's motion. Somerset appealed.

On appeal, Somerset originally sought an order compelling the PTO to issue a decision on its request for an interim extension. While the appeal was pending, however, the PTO denied Somerset's application for interim extension and its application for term extension on the merits. Accordingly, Somerset withdrew the portion of its appeal that sought to compel the PTO to act on its request for interim relief. As a result, the Federal Circuit dismissed that aspect of Somerset's appeal as moot.

With respect to Somerset's appeal regarding the denial of injunctive relief compelling the PTO to grant its request for an interim extension, the Federal Circuit affirmed. The Court held that the district court had not abused its discretion in denying Somerset's motion for a preliminary injunction. The Court observed that to establish entitlement to a preliminary injunction, a movant must establish a reasonable likelihood of success on the merits, and that, Somerset could not so establish. It noted that section 156(e)(2) "only gives the [PTO] the authority to extend a patent's term beyond that provided for by section 154 when the patent for which a term extension is sought 'would expire before a certificate of extension is . . . denied.'" Slip op. at 3 (second alteration in original) (citation omitted). In this case, noted the Court, because the PTO denied Somerset's application for an extension, the PTO had no statutory authority to issue the interim extension Somerset sought. Accordingly, the Court concluded that Somerset had not demonstrated a reasonable likelihood of success on the merits and affirmed the district court's denial of Somerset's motion for a preliminary injunction.

# Expressly Agreeing to Federal Jurisdiction in an Agreement Waives Eleventh Amendment Immunity

*Benjamin D. Bailey*

**Judges: Newman (author), Friedman, Moore (concurring-in-part)**

**[Appealed from W.D. Mich., Judge Carmody]**

In *Baum Research & Development Co. v. University of Massachusetts at Lowell*, No. 06-1330 (Fed. Cir. Oct. 10, 2007), the Federal Circuit affirmed the district court’s judgment, holding that the University of Massachusetts at Lowell (“the University”) waived its Eleventh Amendment immunity by expressly agreeing to federal jurisdiction in an agreement.

Charles S. Baum is the inventor of the two U.S. patents that relate to a device for testing baseball bats. In December 1998, he and the Baum Research and Development Company (collectively “Baum”) entered into a “Confidential License Agreement” with the University. The agreement included the following provision (“Contract Provision III-3”): “This Agreement will be construed, interpreted and applied according to the laws of the State of Michigan and all parties agree to proper venue and hereby submit to jurisdiction in the appropriate State or Federal Courts of Record sitting in the State of Michigan.” Slip op. at 2.

When a dispute arose between the parties, Baum filed suit in the District Court for the Western District of Michigan, alleging breach of contract and patent infringement. The University asserted immunity from suit based on the Eleventh Amendment. The district court denied the University’s motion to dismiss, finding that any immunity was waived by Contract Provision III-3. It then bifurcated the contract and infringement claims, and held a jury trial on the breach of contract claim. Baum prevailed, but on a post-trial motion, the University renewed its claim of immunity. The district court again denied the

University’s motion. The district court then stayed further proceedings pending appeal of the immunity issue to the Federal Circuit.

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“[T]he contract between Baum and the University is not ambiguous as to the mutual obligation to submit to jurisdiction of the state and federal courts in Michigan, and . . . the University thereby waived its Eleventh Amendment immunity.” Slip op. at 6.

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On appeal, the Federal Circuit observed that the Eleventh Amendment limits the judicial authority of the federal courts and bars unconsented suit against a state in federal court. The Court noted that the University claimed immunity as an arm of the state and that Baum did not dispute that status as a state entity was created by a Massachusetts law. As a result, the issue on appeal was whether the University waived its Eleventh Amendment immunity by expressly agreeing to federal jurisdiction in the agreement. The Court noted that in *College Savings Bank v. Florida Prepaid Postsecondary Education Expense Board*, 527 U.S. 666, 675-76 (1999), the Supreme Court stated that a state waives its immunity when it clearly declares its intention to submit to federal jurisdiction, but the intention must be “unequivocally expressed.” Slip op. at 4. At the same time, however, the Federal Circuit noted that general consent provisions standing alone, such as general sue-and-be-sued clauses, have been held insufficient to waive Eleventh Amendment immunity.

Under this framework, the University argued that Contract Provision III-3 contained “vague language” and was not the “unequivocally expressed” consent to suit that precedent required. The Federal Circuit rejected this argument. It agreed with the district court that the contract terms were “clear, and that the University agreed to submit to the jurisdiction of a federal court in Michigan as to disputes arising from [the] contract.” *Id.* at 5. The Court noted that although the University argued that the contract did not state which court is appropriate as to which cause of

action as may arise, this did not negate the agreement to submit to the jurisdiction of the appropriate court. As a result, the Federal Circuit affirmed the district court's ruling that the contract between Baum and the University was not ambiguous as to the mutual obligation to submit to jurisdiction of the state and federal courts in Michigan, and that the University had waived its Eleventh Amendment immunity.

The University contended that even if the contract obligated it to submit to federal jurisdiction, neither the University nor Louise G. Griffin, who signed the agreement on behalf of the University, had authority to enter into a contract that waived the state's Eleventh Amendment immunity. Rejecting this argument, the Federal Circuit noted that the record contained no representation by the State of Massachusetts that the University had no authority to enter into the contract with Baum. Moreover, the Court noted that Ms. Griffin testified that the University had entered into, and she had executed for the University, hundreds of contracts containing this provision, and that the University had never attempted to impugn her authority to do so in the past. The Court further noted that the University did not deny that it had authority to enter into this contract with Baum, but was arguing that Baum must affirmatively prove that the Massachusetts legislature delegated to the University the authority to include in the contract a waiver of immunity in federal court should a dispute arise. The Federal Circuit, however, found no support for the argument that the University's contract authority must be proved, when the University did not deny that authority.

Accordingly, the Federal Circuit affirmed the district court, concluding that it had not erred in its ruling that the Contract Provision III-3 was a clear and unambiguous consent to the jurisdiction of a Michigan federal court for disagreements arising from the license agreement.

Judge Moore concurred in the Court's judgment, but did not join the Court's opinion that dealt with the issue of whether the University had authority to enter into the agreement with Baum.

## Fifteen Patents Held Unenforceable for Inequitable Conduct for Failure to Disclose Relationship of Affiant, Improperly Paying Small Entity Fees, Misclaiming Priorities, and Failure to Disclose Existence of Litigation and Material Prior Art

*Ceyda N. Azakli*

**Judges: Mayer, Lourie (author), Linares (District Judge sitting by designation)**

**[Appealed from N.D. Ill., Judge Darrah]**

In *Nilssen v. Osram Sylvania, Inc.*, No. 06-1550 (Fed. Cir. Oct. 10, 2007), the Federal Circuit affirmed the district court's holding that fifteen patents issued to Ole K. Nilssen and exclusively licensed to Geo Foundation, Ltd. ("Geo") were unenforceable due to inequitable conduct.

Nilssen is the inventor on a large number of patents related to electrical lighting products. Nilssen established Geo as a not-for-profit charitable organization in 1998, and since June 2000, Geo has been the exclusive licensee of Nilssen's patents. Nilssen and Geo sued Osram Sylvania, Inc. and Osram Sylvania Products, Inc. (collectively "Osram"), alleging that Osram had infringed fifteen of Nilssen's patents. The district court entered judgment in favor of Osram, holding all fifteen patents unenforceable due to inequitable conduct. Nilssen and Geo appealed.

**"While a misrepresentation of small entity status is not strictly speaking inequitable conduct in the prosecution of a patent, as the patent has already issued if maintenance fees are payable . . . , it is not beyond the authority of a district court to hold a patent unenforceable for inequitable conduct in misrepresenting one's status as justifying small entity maintenance payments." *Id.* at 11.**

On appeal, the Federal Circuit held initially that the district court did not abuse its discretion in finding that four of Nilssen’s patents were unenforceable, even though they had been withdrawn before trial and were no longer asserted against Osram. The Court noted that with respect to two of the four patents, the district court found that Nilssen had engaged in inequitable conduct by submitting affidavits by Dale Fiene in support of patentability, but failing to inform the examiner of Fiene’s relationship to Nilssen. The Federal Circuit explained that “[e]ven though the examiner did not raise a question concerning any such relationship, it is material to an examiner’s evaluation of the credibility and content of affidavits to know of any significant relationship between an affiant and an applicant” and that “failure to disclose that relationship violated Nilssen’s duty of disclosure.” Slip op. at 8 (citation omitted). With respect to the other two patents, the Court noted that Nilssen and Geo did not contest the materiality of the prior art references that the district court found were intentionally withheld during prosecution. In addition, the Federal Circuit rejected Nilssen and Geo’s argument that the district court should have first considered whether there was a sufficiently close relationship between the patents-in-suit and the four patents no longer in suit before considering whether the patents no longer in suit were unenforceable. The Court reasoned that “[t]rial judges are entitled to arrange the priority of issues in a manner that they consider efficient” and that the four patents were withdrawn from suit only shortly before trial. *Id.* Accordingly, the Federal Circuit concluded that the district court did not abuse its discretion in finding unenforceable the four patents no longer in suit.

The Federal Circuit next addressed the issue of whether the district court abused its discretion in finding that Nilssen’s improper payment of small entity maintenance fees for the patents-in-suit constituted inequitable conduct. It observed that certain entities, including “independent inventors,” are entitled to pay reduced patent maintenance fees and that the relevant PTO regulation defines “independent inventors” as “any inventor who (1) has not . . . licensed, and (2) is under no obligation under contract or law to . . . license, . . .” *Id.* at 9 (citing 35 U.S.C. § 41(h)(1); 37 C.F.R. § 1.9(c) (July 1, 2000)). The district court found that Nilssen had entered into a Compact Fluorescent Lamp Agreement (“CFLA”) with

Philips Electronics North America Corp. (“Philips”), effective December 7, 1995, and into a Patent License Agreement (“PLA”) with Philips, effective January 1, 1996. Because the district court found that these agreements created a license or an obligation to license all of the patents-in-suit, and Philips had more than 500 employees at all relevant times, it concluded that Nilssen was obligated to pay large entity maintenance fees on all the patents-in-suit after December 7, 1995, the date of the CFLA, and that Nilssen’s failure to pay large entity fees constituted inequitable conduct.

The Federal Circuit concluded that the district court did not abuse its discretion in holding that the CFLA precluded Nilssen from being eligible to pay small entity fees on the patents covered by that agreement. It observed that “[t]he clear import of the PTO regulation benefiting small entities is to ensure that inventors currently receiving a revenue stream from or reasonably expected to receive a revenue stream from an entity that is not itself entitled to pay small entity fees should not be able to claim that right.” *Id.* at 10. The Court noted that the district court had not erred when it interpreted the CFLA to mean that Nilssen had in effect licensed Philips on December 7, 1995, and that the PLA, which unequivocally was a license, was executed less than one month after the CFLA, covering most of the same patents as the CFLA. It explained that “[w]hile a misrepresentation of small entity status is not strictly speaking inequitable conduct in the prosecution of a patent, as the patent has already issued if maintenance fees are payable . . . , it is not beyond the authority of a district court to hold a patent unenforceable for inequitable conduct in misrepresenting one’s status as justifying small entity maintenance payments.” *Id.* at 11. The Federal Circuit noted that the district court found clear and convincing evidence of Nilssen’s obvious intent to mislead and, thus, affirmed the district court’s holding that the patents covered by the CFLA were unenforceable.

Similarly, the Federal Circuit concluded that the district court did not abuse its discretion in finding all of the patents-in-suit unenforceable because Nilssen claimed small entity status after the date Geo licensed the patents-in-suit. Because the PTO regulations explicitly excluded an inventor who had licensed his patents to a large company from the definition of an “independent inventor” eligible to pay small entity fees, but did not explicitly state the

same exclusion for a nonprofit organization, Nilssen testified that he believed that a nonprofit organization that licensed patents to a large company was still eligible to pay small entity fees. Nilssen and Geo argued that the fact that the PTO changed the regulation for nonprofits in 2000, specifically noting the confusion created by the prior inconsistent definitions, to explicitly exclude nonprofits licensing to large companies, demonstrated the prior ambiguity of the regulation.

In rejecting Nilssen and Geo's argument, the Federal Circuit observed that the PTO relies on applicants to accurately represent their fee status, and it is for a fact-finder to evaluate whether any intentional misrepresentations occurred in doing so. It noted that the district court did not credit Nilssen's testimony that he was aware of the pre-2000 fee regulations, but yet not aware of the clarification of the relevant regulation in 2000. The Court observed that while the PTO's own admission of ambiguity in the regulation prior to 2000 may have resulted in a reasonable belief that nonprofits were subject to different treatment than independent inventors, it saw no error in the district court's finding that it was not believable that Nilssen was aware of a specific alleged ambiguity in his favor but ignorant of a change that eliminated the alleged ambiguity shortly thereafter. Accordingly, the Federal Circuit affirmed the district court's decision finding all of the patents-in-suit unenforceable due to inequitable conduct in improperly claiming small entity status.

The Federal Circuit next turned to the issue of whether the district court abused its discretion in holding that priority claims in certain of Nilssen's patents constituted inequitable conduct. Nilssen and Geo argued that an improper claim to an earlier priority date was only material to patentability if the applicant asserts that earlier date to overcome or exclude prior art. In rejecting this argument, the Federal Circuit noted that "[i]t is not necessary for a holding of inequitable conduct that an examiner rely on a claim for priority or that entitlement to an earlier priority be expressly argued in order to overcome prior art." *Id.* at 14. It added that a claim for priority is inherently material to patentability because a priority date may determine validity, whether an issue arises in prosecution or later in court challenges to validity. It explained that "[w]hile an active misrepresentation made during prosecution in order to avoid prior art is no doubt 'highly material,' . . . a misrepresentation that would

not have immediately affected patentability is still material, . . ." *Id.* at 15 (citations omitted). The Federal Circuit noted that it could not say that the district court's finding—that Nilssen's disclosures that his patents were derived from earlier ones were intentional misrepresentations—was clearly erroneous given that the district court had made credibility determinations. It therefore affirmed the district court's conclusion that those patents were unenforceable for inequitable conduct in misclaiming priority.

The Federal Circuit next addressed the issue of whether the district court abused its discretion in holding eight patents unenforceable for inequitable conduct based upon Nilssen's failure to disclose Nilssen's litigation with Motorola, which involved different Nilssen patents. Nilssen and Geo argued that the district court failed to conduct an adequate comparison of the subject matter of the patents in the Motorola litigation with the subject matter of the patents-in-suit to determine whether Nilssen violated M.P.E.P. § 2001.06(c) in failing to bring the litigation to the attention of the examiner. M.P.E.P. § 2001.06(c) states that "[w]here the subject matter for which a patent is being sought is, or has been involved in litigation, the existence of such litigation and any other material information arising therefrom must be brought to the attention of the [PTO], . . ." *Id.* at 15-16 n.2. The Federal Circuit noted that it is clear from the language of M.P.E.P. § 2001.06(c) that the existence of the litigation itself is material information because it signals to the examiner that other material information relevant to patentability may become available through the litigation proceedings. It noted further that the PTO obviously considers such information material and there was no basis for it to conclude otherwise. It therefore affirmed the district court's holding that eight Nilssen patents were unenforceable for inequitable conduct in failing to disclose the Motorola litigation.

Finally, the Federal Circuit considered the issue of whether the district court correctly concluded that certain Nilssen patents were unenforceable for inequitable conduct because Nilssen withheld material prior art references during prosecution. In affirming the district court on this basis, the Federal Circuit noted that the district court's findings regarding the withheld references were not clearly erroneous. It explained that "[i]nformation is material if there is a substantial likelihood that a reasonable examiner would have considered the

information important in deciding whether to allow the application to issue as a patent.” *Id.* at 18 (citation omitted). It noted that the fact that Nilssen had repeatedly cited or had cited to him the prior art references in question made it highly likely that a reasonable examiner would have wanted to consider the information in the withheld patents in determining patentability. Given that these material references were repeatedly before Nilssen, and his failure to offer any good-faith explanation for withholding them other than mere oversight, the Court noted that an inference that Nilssen intended to deceive the PTO was not unreasonable.

In closing, the Federal Circuit noted that each of the issues on which the district court found inequitable conduct generated defenses by Nilssen that were not per se unreasonable. However, noted the Court, “this case present[ed] a collection of . . . problems, which the district court evaluated thoroughly and . . . concluded that the record and testimony indicated repeated attempts to avoid playing fair and square with the patent system.” *Id.* at 18-19. The Court added that “[m]istakes do happen, but inadvertence can carry an applicant only so far.” *Id.* at 19. As a result, the Federal Circuit concluded that it could not find that the district court’s holding of unenforceability was an abuse of discretion.

## A District Court Has Subject Matter Jurisdiction to Conduct Contempt Proceedings in an ANDA Litigation, but Filing of a Second ANDA Does Not Violate an Injunction Where the Injunction Does Not Prohibit Such a Filing

*David Albagli*

**Judges: Michel (author), Dyk, (concurring-in-part and dissenting-in-part), Otero (District Judge sitting by designation)**

**[Appealed from N.D. Ill., Judge Posner]**

In *Abbott Laboratories v. TorPharm, Inc.*, No. 07-1019 (Fed. Cir. Oct. 11, 2007), the Federal Circuit upheld the district court’s decision to hold a contempt proceeding on whether Nu-Pharm, Inc.’s

(“Nu-Pharm”) filing of an ANDA violated an injunction against TorPharm, Inc., Apotex, Inc., and Apotex Corporation (collectively “Apotex”), but it reversed the district court’s finding of contempt because the injunction contained no “explicit notice” to Apotex that the filing of a new ANDA, by itself or a straw party, was forbidden.

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“[The Hatch-Waxman Act] is simply silent regarding a district court’s contempt authority. Because we assume Congress’s familiarity with general principles of law when enacting a statute, Congress must have intended for the courts to maintain their inherent authority to enforce their own injunctions under the well-established principles of equity.”  
Slip op. at 8.

“[I]t is settled law that courts possess broad equitable powers to enforce their own decrees. However, we cannot and do not purport to rewrite the original injunction because Apotex had no explicit notice that it was enjoined from filing a second ANDA.” *Id.* at 15 (citation omitted).

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Abbott Laboratories (“Abbott”) owns two patents, U.S. Patent Nos. 4,988,731 and 5,212,326 (collectively “the Abbott patents”), directed to divalproex sodium, an active ingredient in Abbott’s drug Depakote®, an antiseizure medication. In 1997, Apotex filed an ANDA seeking FDA approval to manufacture and sell a generic version of Depakote®. In response, Abbott sued Apotex for infringement of the Abbott patents. The district court granted SJ in favor of Abbott on both validity and infringement. Apotex appealed. The Federal Circuit affirmed with respect to validity, but remanded for a trial on infringement. On remand, Judge Posner of the United States Court of Appeals for the Seventh Circuit (sitting by designation in the U.S. District Court for the Northern District of Illinois) conducted a bench trial and held that Apotex’s filing of the ANDA infringed the claims of the Abbott patents. The district court also issued an injunction. Apotex again appealed, but the Federal Circuit affirmed.

Apotex then attempted to design around the Abbott patents and allegedly developed divalproex sodium in the form of a polymer. Rather than file a new ANDA itself, however, Apotex entered into an agreement with Nu-Pharm, whereby Apotex would pay for costs associated with preparation of a new ANDA filing. In March 2005, Nu-Pharm filed an ANDA and certified under paragraph IV that the Abbott patents were not infringed. Abbott then filed suit against Nu-Pharm for patent infringement. In March 2006, Nu-Pharm filed an amended ANDA and shortly thereafter, Abbott filed a second suit, this time against both Nu-Pharm and Apotex, who Abbott apparently had just learned were acting in concert. Both of these new cases were eventually assigned to Judge Pallmeyer.

In August 2006, Abbott filed a “Motion to Enforce Its Injunction Order” before Judge Posner. Judge Posner found Apotex in contempt for violating the injunction and extended the injunction to include the Nu-Pharm ANDA. Apotex appealed.

On appeal, the Federal Circuit addressed initially the issue of whether the district court had subject matter jurisdiction to conduct the contempt proceedings. Apotex argued that a contempt proceeding is unlawful in the context of a Hatch-Waxman suit because such a lawsuit is filed before the accused infringer has engaged in any “classically infringing” activity—i.e., making, using, selling or offering to sell, or importing into the United States the patented drug. It argued that, because it did not engage in any of these activities but merely filed a second ANDA, it had at most committed an act of “artificial infringement” and could not have violated the injunction. In rejecting this argument and concluding that the district court has jurisdiction, the Federal Circuit noted that Apotex’s characterization of “classically infringing” activity was legally meaningless. It observed that it has held numerous times that the filing of a paragraph IV certification is itself an act of infringement if the purpose of the ANDA submission is to obtain the FDA’s approval to engage in the commercial manufacture, use, or sale of a patented drug. The Court reasoned that Apotex had failed to provide any authority suggesting that suits commenced under the Hatch-Waxman Act were to be treated any differently than patent

infringement suits under 35 U.S.C. § 271(a) and that it had previously held that a district court’s infringement analysis in such a suit is no different than that in any other infringement suit.

The Federal Circuit reasoned that well-settled principles of equity govern injunctions in patent disputes just as in disputes in other areas of law. It added that the Hatch-Waxman Act does not counsel otherwise and is simply silent regarding a district court’s contempt authority. It noted that “[b]ecause . . . Congress’s familiarity with general principles of law when enacting a statute [is assumed], Congress must have intended for the courts to maintain their inherent authority to enforce their own injunctions under the well-established principles of equity.” Slip op. at 8.

Apotex also argued that the district court abused its discretion in holding a contempt proceeding because resolving the infringement issue requires “scientific testing, expert opinions, and a host of credibility determinations.” *Id.* In rejecting this argument, the Federal Circuit reasoned that although it has counseled against contempt proceedings of a summary nature, it has done so in the context of an infringer who has made a good-faith effort to modify the adjudged or admitted infringing device. It noted that the district court found that “Apotex’s choice of Nu-Pharm to file the ANDA was a subterfuge intended to give Apotex a crack at another district judge” who might find that Nu-Pharm ANDA drug noninfringing, a finding that the Federal Circuit did not disturb. *Id.*

In addition, the Federal Circuit observed that it has held that before entering a judgment of contempt of an injunction in a patent infringement case, a district court must address two separate questions. It noted that the district court must first address whether a contempt hearing is an appropriate forum for adjudging whether an allegedly redesigned product is infringing and that, in doing so, the district court must compare the accused product with the original infringing product. The Court noted that if there is “more than a colorable difference” between the accused product and the adjudged infringing product such that “substantial open issues with respect to infringement” exist, contempt proceedings are not appropriate. *Id.* at 9.

If contempt proceedings are appropriate, noted the Court, the district court must then address whether the accused product infringes the claims of the asserted patent. The Court observed that to show infringement, the patentee must prove by clear and convincing evidence that the modified device falls within the admitted or adjudicated scope of the claims.

Applying these principles, the Federal Circuit held that the district court did not abuse its discretion in holding contempt proceedings. It found that the district court carefully reviewed the evidence and that clear and convincing evidence supported the district court's finding that there was no more than a colorable difference, if any, between the Apotex ANDA drug and the Nu-Pharm ANDA drug. It added that "[w]here, as here, a party files a second ANDA to a drug having no more than a colorable difference from the first, the district court is well within its discretion to entertain contempt proceedings." *Id.* at 11. Moreover, the Federal Circuit held that the district court did not clearly err in finding that Abbott proved by clear and convincing evidence that the Nu-Pharm ANDA drug infringed the claims of the Abbott patents. It noted that in reaching this conclusion, the district court considered all the evidence, including the documentary and expert evidence.

The Federal Circuit further held that it was within the discretion of the district court to issue an order expanding the original injunction. The Court noted that the original injunction clearly prohibited the FDA from approving the Apotex application and "any other application . . . which the Court has found to be infringing." *Id.* at 12. The Court observed that because the Nu-Pharm ANDA drug would infringe the claims of the Abbott patents, the district court did not abuse its discretion in extending the injunction to prohibit the FDA from approving the Nu-Pharm ANDA. The Court therefore declined to vacate the revised injunction, as Apotex requested.

Finally, the Federal Circuit reviewed the finding of contempt. It held that the district court made an error of law in interpreting the original injunction to preclude the conduct of which Abbott complains, namely, the filing of the Nu-Pharm ANDA, and thereby abused its discretion in holding Apotex in contempt. It noted that while it agreed with the

district court that Apotex could not manufacture generic divalproex sodium in the United States, there was no evidence here that Apotex actually did so and rather, it was undisputed that Apotex's actions in attempting to design around the Abbott patents occurred outside the United States. Accordingly, the Court held that Apotex did not violate the injunction.

The Court also noted that while it agreed that Apotex's filing of the Nu-Pharm ANDA was an act of infringement, it could not agree that Apotex's actions actually violated the original injunction. In that regard, observed the Court, the district court impermissibly interpreted the original injunction as prohibiting acts beyond its plain terms in violation of Fed. R. Civ. P. 65(d), which provides that "[e]very order granting an injunction . . . shall be specific in terms [and] shall describe in reasonable detail . . . the act or acts sought to be restrained." *Id.* at 13-14 (alterations in original). The Court noted that Rule 65(d) was designed to prevent, inter alia, uncertainty and confusion on the part of those facing an injunction. These concerns, observed the Court, have led courts to construe injunctions narrowly where, as here, they fail to give adequate notice that particular conduct was enjoined. The Court noted that the injunction contained no "explicit notice" to Apotex that the filing of a new ANDA, by itself or a straw party, was forbidden. Accordingly, the Federal Circuit reversed the district court's judgment of contempt.

Judge Dyk concurred-in-part and dissented-in-part. He agreed with the majority that the original injunction did not bar Apotex from filing a new ANDA and that the district court did not properly find Apotex in contempt. He dissented, however, from the majority's conclusion that the contempt proceedings were appropriate. He reasoned that the "[p]rocess of contempt is a severe remedy, and should not be resorted to where there is fair ground of doubt as to the wrongfulness of the defendant's conduct." Dyk op. at 1 (alteration in original). In his view, given the majority's decision that the original injunction did not preclude the conduct of which Abbott complained, namely, the filing of the Nu-Pharm ANDA, there was clearly a "fair ground of doubt" as to whether Apotex's conduct was wrongful under the injunction and that summary contempt proceedings were therefore inappropriate. He added that if he is correct that contempt

proceedings were improper, then it necessarily follows that any decision made in the course of those proceedings must be vacated. Thus, in his opinion, the finding of infringement and the extension of the injunction should be vacated.

## Patent Was Not Indefinite Under the Correct Claim Construction and Was Not Invalid for Failing to Satisfy the Best Mode Requirement Because the Alleged Undisclosed Best Mode Fell Outside the Scope of the Claim

*Stephen E. Kabakoff*

**Judges: Newman, Rader (author), Gajarsa**

**[Appealed from S.D. Tex., Judge Ellison]**

In *AllVoice Computing PLC v. Nuance Communications, Inc.*, No. 06-1440 (Fed. Cir. Oct. 12, 2007), the Federal Circuit reversed the district court's grant of SJ in favor of Nuance Communications, Inc. ("Nuance") that AllVoice Computing PLC's ("AllVoice") U.S. Patent No. 5,799,273 ("the '273 patent") was invalid as indefinite and for failure to satisfy best mode.

"In software cases, . . . algorithms in the specification need only disclose adequate defining structure to render the bounds of the claim understandable to one of ordinary skill in the art." Slip op. at 12.

"[S]ubject matter outside the scope of the claims also falls outside the scope of the best mode requirement." *Id.* at 15.

60, 61, and 67 were indefinite under 35 U.S.C.

The '273 patent is directed to voice recognition technology and covers an interface between a speech recognition engine and various end-user application programs on a personal computer. AllVoice alleged that Nuance's Dragon Naturally Speaking software infringed the '273 patent. On SJ, the district court held that the '273 patent was invalid because claims

§ 112, ¶ 2, and because the specification did not disclose the best mode of practicing claim 73. AllVoice appealed.

On appeal, the Federal Circuit disagreed with the district court and concluded that certain means-plus-function limitations in claims 60, 61, and 67 satisfied the definiteness requirement. In so concluding, the Court observed that the test for definiteness asks whether one skilled in the art would understand the bounds of the claim when read in light of the specification. However, the district court did not specify the proficiency of the hypothetical person of ordinary skill in the art. The Court noted that during oral argument, AllVoice's counsel defined a person of ordinary skill in the art in the context of this case as "someone who has a degree in computer science or something equivalent and 2-3 years experience programming in Windows" and that this definition was consistent with the level of skill ascertained in other software patent disputes. Slip op. at 5. Because Nuance did not pose a different definition nor dispute AllVoice's definition, the Federal Circuit used AllVoice's definition in applying the definiteness test.

The Federal Circuit determined that the disputed limitations in claims 60, 61, and 67 are means-plus-function elements under 35 U.S.C. § 112, ¶ 6. The Court noted that under 35 U.S.C. § 112, ¶¶ 2 and 6, a means-plus-function limitation is indefinite if a person of ordinary skill in the art would be unable to recognize the structure in the specification and associate it with the corresponding function in the claim.

Claim 60 recited "output means for outputting the recognized words into at least any one of the plurality of different computer-related applications to allow processing of the recognized words as input text." *Id.* at 6. Disagreeing with the district court's construction that "this limitation require[d] a system outputting, alternately, to a plurality of different word processing or other application programs," the Federal Circuit noted that the district court improperly added the requirement that the system be able to output "alternately" to different programs. *Id.* The Court reasoned that although the output means must be capable of outputting recognized words to more than one program, the claim did not suggest the requirement that the means do so alternately. In other words, noted the

Court, the district court incorrectly added the requirement that the user have the ability to change the destination program “on the fly.” The Court concluded that a person skilled in the art would understand the clause to merely require compatibility with multiple output programs, not the ability of users to switch between multiple output programs at will.

Viewing the prosecution history in proper context, the Court construed claim 60 to require “a system capable of outputting to a plurality of different word processing or other application programs.” *Id.* at 7. Under this construction, the Court held that the specification did contain structure corresponding to the “output means” clause of claim 60 and that the record showed that an artisan of ordinary skill would understand the bounds of the claim when read in light of the specification. Accordingly, the Court concluded that claim 60 satisfied the definiteness requirement.

With respect to claims 61 and 67, the Federal Circuit noted that the claim terms at issue related to the interface’s ability to perform functions “independent of” the connected application program. The district court construed “independent of” to mean essentially “isolated.” *Id.* at 9. The Federal Circuit noted that according to this interpretation, the claimed interface could not receive any information from the application and that it must keep track of the positions of words in the application without ever obtaining position data from the application. The Federal Circuit rejected this interpretation and concluded that the claim term “independent of” meant that “the interface must maintain its own position data, in its own data structures, but still have the ability to receive positional information from the application.” *Id.* In so concluding, the Court noted that “[o]nce again the district court went astray by taking the prosecution history out of context.” *Id.* The Federal Circuit observed that with a proper reading of the claim term, the specification did contain adequate structure. It concluded that because neither the claim language nor the prosecution required more, the district court erred in finding claims 61 and 67 indefinite on the basis of the “independent of” language.

The Federal Circuit also disagreed with the district court’s conclusion that claims 61 and 67 were

indefinite for failure to set forth sufficient algorithmic structure associated with the disputed means-plus-function limitations. The Court found that the specification contained sufficient algorithmic structure to give meaning to claims 61 and 67. It observed that claim definiteness depends on the skill level of a person of ordinary skill in the art and that “[i]n software cases, therefore, algorithms in the specification need only disclose adequate defining structure to render the bounds of the claim understandable to one of ordinary skill in the art.” *Id.* at 12. The Court noted, relying on the statement of AllVoice’s expert, that the record did contain sufficient algorithmic structure to give meaning to the claim terms. Accordingly, it held that claims 61 and 67 satisfied the definiteness requirement.

The Federal Circuit next turned to the district court’s grant of SJ of invalidity based on best mode of claim 73 of the ’273 patent, which recites instructions for performing a variety of functions and includes, inter alia, an instruction for “causing the processor to implement the interface application program *to form link data linking the audio data to the recognised words, . . .*” *Id.* at 3. The Federal Circuit noted that the invention in claim 73, essentially a data link, keeps track of word position changes to identify audio corresponding with the selected text. The district court held that claim 73 of the ’273 patent was invalid for deliberate concealment of the best mode, a requirement of U.S.C. § 112, ¶ 1. The Federal Circuit disagreed, concluding that a careful reading of claim 73 showed that the alleged undisclosed best mode was not a best mode of practicing the claimed invention and that the alleged best mode subject matter fell outside the scope of claim 73.

The Federal Circuit observed that the best mode requirement “ensures [that] a patent applicant discloses the preferred embodiment of his invention” and that only the claimed invention is subject to the best mode requirement. *Id.* at 14. The Court noted that to apply the best mode standard, a court must first determine whether, at the time the patent application was filed, the inventor had a best mode of practicing the claimed invention. This determination, stated the Court, turns on the inventor’s own subjective beliefs.

The Federal Circuit observed that Nuance alleged, and the district court agreed, that some functions of WordExpress, one of AllVoice's commercial products, constituted an undisclosed best mode for claim 73. In reaching this judgment, the district court assumed that claim 73 required maintaining or updating link data during the editing process. Based on this assumption, the district court held that the best mode for maintaining links after editing included a certain software "macro," Microsoft Windows "hooks," and the disabling of certain features of Microsoft Word. *Id.*

The Federal Circuit found that the district court incorrectly held that the macro's functions were within the scope of claim 73. In light of the specification as a whole and the claim language, the Federal Circuit construed "form[ing] link data" in claim 73 as "the formation of the data structure in volatile memory, excluding operations to update or maintain link accuracy." *Id.* at 16.

Unlike claims 1, 15, and 28, and others in the '273 patent, claim 73 did not include "updating" link data, "maintaining" link data after editing, or "monitoring" changes to text. *Id.* at 18. The Federal Circuit concluded that because "forming link data" did not include monitoring changes or updating link data, a method to perform those unclaimed functions fell outside the scope of claim 73. It observed that the macro considered by the district court did nothing more than monitor the changes to a document, to eventually facilitate the updating of link data. Because claim 73 did not include these features, the macro could not be a best mode for claim 73. Because the alleged best mode did not fall within the scope of claim 73, the Court did not consider whether the inventors of the '273 patent actually believed the macro was their best mode of practicing the invention or whether they deliberately concealed that subject matter.

Nuance argued that claim 73 implicitly included "updating" or "maintaining" link data. The Federal Circuit also rejected this argument, noting that each claim need not include every feature of an invention and that it enforces a presumption that each claim in a patent has a different scope. Because the functionality of the alleged best mode fell outside the scope of claim 73, the Court found no violation of the best mode and reversed the district court's holding of invalidity of the '273 patent.

## An Exclusive Licensee Has Standing to Appeal on Its Own If the Patentee Was a Party in the District Court, and Prosecution History Estoppel Bars Application of DOE When a Narrowing Amendment Is Directly Related to the Range of Equivalent Sought to Be Recaptured

*Carlos M. Téllez*

**Judges: Michel, Lourie (author), Moore**

**[Appealed from D. Minn., Judge Montgomery]**

In *Schwarz Pharma, Inc. v. Paddock Laboratories, Inc.*, No. 07-1074 (Fed. Cir. Oct. 12, 2007), the Federal Circuit affirmed the district court's grant of SJ of noninfringement of U.S. Patent No. 4,743,450 ("the '450 patent") to Paddock Laboratories, Inc. ("Paddock"), holding that Schwarz Pharma, Inc. and Schwarz Pharma AG (collectively "Schwarz"), the exclusive licensee of the '450 patent, had standing by themselves to appeal and that prosecution history estoppel barred resort to DOE.

Warner-Lambert Company, LLC ("Warner-Lambert") owns the '450 patent relating to pharmaceutical compositions containing Angiotensin Converting Enzyme ("ACE") inhibitors combined with stabilizers to prevent certain types of degradation. ACE inhibitors are prescribed for the treatment of high blood pressure and without the stabilizers, may degrade through cyclization, discoloration, and hydrolysis.

Paddock filed an ANDA to market generic tablets ("the Paddock drug") containing, inter alia, magnesium oxide ("MgO") and certified that the '450 patent was invalid and/or not infringed. Schwarz and Warner-Lambert sued Paddock, alleging infringement of the '450 patent. Paddock filed a motion for SJ of noninfringement. Schwarz stipulated that the Paddock drug did not literally infringe the '450 patent. As to DOE, the district court determined that prosecution history estoppel applied. During prosecution, the original claim elements "a metal containing stabilizer" and "an alkali or alkaline earth-metal salt," were amended to

instead recite “an alkali or alkaline earth metal carbonate.” The district court held that the change in claim language was a narrowing amendment and presumptively surrendered all metal-containing stabilizers and alkali or alkaline earth metal salts except alkali and alkaline earth metal carbonates. The district court also held that Schwartz failed to rebut the presumption of surrender because MgO was a foreseeable equivalent of magnesium carbonate. The district court thus concluded that the Paddock drug could not infringe because Schwartz was estopped from claiming that the MgO used by Paddock was the equivalent of an alkali or alkaline earth metal carbonate. Schwarz appealed.

As a preliminary matter, the Federal Circuit determined whether Schwartz had standing to bring the appeal because Warner-Lambert, the patent owner, did not appeal. The Court recognized that although it has stated the necessity of joining a patent owner in an action for infringement brought by an exclusive licensee a number of times, the particular question presented here was an issue of first impression. It concluded that, “when a patentee joins an exclusive licensee in bringing a patent infringement suit in a district court, the licensee does not lose standing to appeal even though the patentee does not join in the appeal.” Slip op. at 5-6.

In so concluding, the Federal Circuit observed that it has interpreted the requirement to join the patentee as a prudential requirement rather than a constitutional standing one. It noted that one of the reasons for requiring joinder of the patent owner is the possibility that the alleged infringer would be subject to multiple actions. The Court recognized that “[t]here [was] no such danger here, as Warner-Lambert ha[d] already been joined in the infringement action, and, if not joined in the appeal, [would] continue to be bound by the judgment of the trial court” and of the Federal Circuit. *Id.* at 6. The Court also noted that an additional reason for requiring joinder of a patentee is to ensure that its rights are protected in a suit brought by the licensee and that a patent should not be placed at risk of invalidation by the licensee without the participation of the patentee. The Court reasoned that no such risk existed here because Warner-Lambert was joined in the infringement suit and had an opportunity to protect its interests. In addition, noted the Court, Schwartz was a plaintiff

in a suit that was properly joined in the district court by the record patentee and, as a party adversely affected by the district court judgment, Schwartz was entitled to appeal that judgment alone.

The Federal Circuit next concluded that the district court did not err in holding that Schwartz’s claim of infringement under the DOE was barred by prosecution history estoppel. In so concluding, the Court noted that the original independent claims recited a metal-containing stabilizer or an alkaline earth metal salt and that Warner-Lambert presumptively surrendered subject matter encompassed by those terms during amendment. The Court added that the amendment was made in response to an obviousness rejection by the examiner and, thus, was presumed to have been made for reasons of patentability. Accordingly, the Court held that the presumption of surrender applied to MgO because “it clearly [fell] within the territory between the language of the original and the amended claims of the ’450 patent.” *Id.* at 10-11.

Schwarz argued that even if the presumption of surrender applied, there was a genuine issue of material fact as to whether MgO was a foreseeable equivalent of an alkali or alkaline earth metal carbonate. The Federal Circuit noted that it was Schwartz’s burden to rebut the presumption. Citing its recent decision in *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 493 F.3d 1368, 1379 (Fed. Cir. 2007), the Federal Circuit stated that “an alternative is foreseeable if it is known in the field of the invention as reflected in the claim scope before amendment” and that it would be

“[W]hen a patentee joins an exclusive licensee in bringing a patent infringement suit in a district court, the licensee does not lose standing to appeal even though the patentee does not join in the appeal.” Slip op. at 5-6.

“The fact that the inventors may have thought after the fact that they could have relied on other distinctions in order to defend their claims [was] relevant and speculative; . . . [T]he narrowing amendment was directly related to the range of equivalents that Schwartz now [sought] to recapture.” *Id.* at 12-13.

inappropriate to apply an insubstantial differences or function/way/result test in order to determine foreseeability. Slip op. at 11. The Court observed that Schwarz did not “seriously dispute” that MgO was known as a stabilizer by those of skill in the art at the time of the amendment, but rather insisted that MgO had to have been known as a stabilizer against the specific degradation pathway of cyclization or for the specific drug category of ACE inhibitors. *Id.* The Court rejected this argument, recognizing that “[w]hile care must be taken not to sweep too broadly in defining the field of an invention, Schwartz attempt[ed] to define the field of invention too narrowly.” *Id.*

The Court noted that claim 1 recited “[a] pharmaceutical composition” and that this language defined the field within which foreseeability may be considered. The Court therefore concluded that, because MgO was known as a stabilizer in the field of pharmaceutical compositions, Schwarz had failed to rebut the presumption of surrender by demonstrating that MgO was not a foreseeable equivalent. With respect to claim 16, which is directed to a process of stabilizing an ACE inhibitor against cyclization, the Federal Circuit stated that “it d[id] not require much of a stretch of the imagination of a person skilled in the art of pharmaceutical formulation to foresee that that stabilizer might be helpful in stabilizing ACE inhibitors.” *Id.* at 12.

Finally, the Federal Circuit also disagreed with Schwarz that the presumption of surrender was rebutted because the narrowing amendment was no more than tangentially related to the use of MgO. The Court observed that the use of MgO was directly implicated by the amendment of the claim language because the language amended concerned the types of stabilizers covered by the claims and excluded MgO. The Federal Circuit explained that “[t]he fact that the inventors may have thought after the fact that they could have relied on other distinctions in order to defend their claims [was] irrelevant and speculative; . . .” *Id.* Indeed, the Court noted that “the narrowing amendment was directly related to the range of equivalents Schwarz now [sought] to recapture.” *Id.* at 13. Accordingly, it affirmed the district court’s grant of SJ of noninfringement in favor of Paddock.

## Multiplexer Patent Held Invalid as Obvious over Combination of References

*John S. Sieman*

**Judges: Mayer, Rader (author), Prost**

**[Appealed from the Board]**

In *In re Translogic Technology, Inc.*, No. 06-1192 (Fed. Cir. Oct. 12, 2007), the Federal Circuit affirmed the Board’s determination during reexamination that U.S. Patent No. 5,162,666 (“the ’666 patent”) was obvious at the time of the invention over a combination of prior art references.

The ’666 patent discloses and claims a configuration of multiplexers connected in series. Multiplexers are electronic circuits that have a certain number of inputs and an appropriate number of control lines to select one of the inputs to use as the output. A 2:1 multiplexer is a multiplexer with two inputs (not including one control line) and one output. The ’666 patent claims multiplexers created by connecting multiple 2:1 multiplexers in series. Each relevant claim explicitly defines each 2:1 multiplexer to be a transmission gate multiplexer (“TGM”). By stringing together multiple 2:1 TGMs, it becomes possible to build multiplexers with more inputs, such as 4:1 and 5:1 multiplexers. These 4:1 and 5:1 multiplexers are described as having multiple stages, with one stage corresponding to each 2:1 TGM multiplexer.

Translogic Technology, Inc. (“Translogic”) sued Hitachi, Ltd. et al. (“Hitachi”) for infringement of the ’666 patent. Hitachi filed multiple reexamination requests, which were merged by the PTO into a single proceeding. The Board held that numerous claims would have been obvious at the time of the invention. Translogic appealed.

In the meantime, the district court case continued in parallel. A jury upheld the ’666 patent as valid and the district court granted Translogic’s motion for SJ of infringement against Hitachi. The jury awarded over \$80 million in damages and the district court entered a permanent injunction. Hitachi appealed the district court result to the Federal Circuit as well. The Federal Circuit stayed the lower court’s

injunction and combined Hitachi’s appeal with Translogic’s appeal from the Board.

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“[A]n obviousness analysis ‘need not seek out precise teachings directed to the specific subject matter of the challenged claim, for a court can take account of the inferences and creative steps that a person of ordinary skill in the art would employ.’” Slip op. at 20 (quoting *KSR Int’l Co. v. Teleflex Inc.*, 127 S. Ct. 1727, 1741 (2007)).

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On appeal, the Federal Circuit first considered the construction of the claimed phrase, “control input terminal *coupled to receive* a control signal.” (Emphasis added.) The Board construed “coupled to receive” to mean a “[t]erminal capable of receiving a control signal” and not including the control signal itself. Translogic argued that the Board should have followed the claim construction from the district court. Specifically, the district court determined that “signal input terminal ‘coupled to receive’ an input variable” meant “connected to receive an input variable, directly or through one or more intervening inverters or buffers.” The Federal Circuit noted that under the district court’s construction, the claims would require each input and control input terminal to be connected to receive a variable signal from a different source. According to Translogic, the Gorai prior art reference did not disclose that each input and control input terminal must receive a variable signal from a different source. Instead, Translogic argued that Gorai teaches logic circuits with input terminals coupled to share signals and receive constants.

The Federal Circuit concluded that the words of the claim coupled with the specification supported the Board’s construction. The Court first noted that the claim terms did not specify any structural connection for the input terminals. Furthermore, the figures in the ’666 patent showed no structural connection for the input terminals. Moreover, the Court found that, as Translogic admitted, “as is proper for a structural circuit, the input variables (i.e., signals) are not part of the claimed invention.” Slip op. at 13.

The Court also found that the Board’s construction was supported by comparing the phrases “coupled to” and “coupled to receive,” both of which appeared in the claims. Specifically, the Court found that “coupled to” was used in the claims to define a connection between two circuits, whereas “coupled to receive” did not specify a particular connection. The Court concluded that the different usage of the two phrases supported the Board’s construction that “coupled to receive” meant merely “capable of receiving.”

After construing the disputed claim term, the Court turned to the Board’s holding of obviousness. Translogic disputed the relevance of the Gorai reference, arguing that it did not specifically disclose an N:1 series multiplexer but only disclosed an algorithm to realize logic functions by using 2:1 multiplexers connected in series. The Federal Circuit rejected this argument, explaining that “Translogic is making the same error corrected by the Supreme Court in *KSR [International Co. v. Teleflex Inc.]*, 127 S. Ct. 1727 (2007).” Slip op. at 18. Specifically, the Federal Circuit explained that Gorai need not be directed to the same problem as the ’666 patent in order to qualify as relevant prior art. Instead, the Gorai reference was relevant because it was “prior art within the public domain and the common knowledge of a person of ordinary skill in the art.” *Id.* at 19.

The Court further rejected Translogic’s argument that there was no specific teaching, suggestion, or motivation to combine Gorai—which did not disclose the use of TGMs for each multiplexer stage—with the Weste reference, which disclosed a TGM circuit. The Court explained that “an obviousness analysis ‘need not seek out precise teachings directed to the specific subject matter of the challenged claim, for a court can take account of the inferences and creative steps that a person of ordinary skill in the art would employ.’” *Id.* at 20 (quoting *KSR*, 127 S. Ct. at 1741). The Court found that TGMs were well-known multiplexer circuits and, thus, “in looking for a multiplexer circuit for the individual 2:1 multiplexers disclosed in Gorai, a person of ordinary skill in the art would have solved this design need by ‘pursu[ing] known options within his or her technical grasp.’” *Id.* (quoting *KSR*, 127 S. Ct. at 1742). The Court thereby affirmed the Board’s holding of obviousness.

# Federal Jurisdiction Proper for Legal Malpractice Claim Because Question of Patent Infringement Was a “Necessary Element” of the Claim

Joyce Craig

**Judges: Michel (author), Louie, Rader**

**[Appealed from W.D. Tex., Judge Furgeson]**

In *Air Measurement Technologies, Inc. v. Akin Gump Strauss Hauer & Feld, L.L.P.*, No. 07-1035 (Fed. Cir. Oct. 15, 2007), the Federal Circuit affirmed the interlocutory decision of a district court denying defendants’ motion to remand a lawsuit to state court. The Federal Circuit concluded that the question of patent infringement comprised a necessary element of the plaintiff’s malpractice claim and raised a substantial and contested question of patent law that Congress intended federal courts to resolve.

Herbert Stumberg and James A. Fulton developed technology for a safety device for emergency personnel who require supplemental oxygen. The safety device is integrated into self-contained breathing apparatuses (“SCBA”). Stumberg and Fulton formed Air Measurement Technologies, Inc. (“AMT”) to develop, license, and market the safety device. In 1989, the inventors hired patent attorney Gary Hamilton of Akin Gump Strauss Hauer & Feld, L.L.P. (“Akin Gump”) to patent their technology. With Hamilton’s knowledge, the inventors began marketing a prototype of their invention in 1989. Hamilton filed the first patent application on August 6, 1991, which issued as U.S. Patent No. 5,157,378. Hamilton also prosecuted continuation applications that issued as U.S. Patent Nos. 5,689,234; 5,910,771; 6,201,475; and 6,310,552.

Starting in 2000, AMT sued six SCBA manufacturers for patent infringement. All six suits settled for a total of approximately \$10 million. During the course of the litigation, AMT discovered errors Hamilton allegedly made during patent prosecution and patent litigation. Specifically, AMT alleged that Hamilton, among other things, failed to file the initial patent application within the

one year “on sale bar” of 35 U.S.C. § 102(b), failed to disclose prior art during prosecution of the patent applications, and made misrepresentations to AMT.

AMT sued Hamilton, Akin Gump, and two other law firms in Texas state court for legal malpractice, negligence, negligent misrepresentation, and breach of fiduciary duties. Hamilton and one of the law firms settled with AMT. AMT contended that Akin Gump’s errors forced

AMT to settle the prior litigation with SCBA manufacturers below fair market value because the defendants were able to raise defenses such as invalidity and unenforceability due to Hamilton’s errors. Akin Gump removed the case to federal court pursuant to 28 U.S.C. § 1338, arguing that resolution of the suit required resolution of a substantial question of patent law.

The district court denied AMT’s subsequent motion to remand, concluding that, in order to prevail, AMT would need to establish the success of its infringement claims and that Hamilton’s negligence afforded the defendants certain defenses under patent law. Almost three years later, the parties changed postures; this time, the defendants moved to remand the case, asserting that federal jurisdiction under § 1338 was lacking. The district court denied the motion and Akin Gump petitioned for permission to appeal under 35 U.S.C. § 1292(b), which the Federal Circuit granted.

On appeal, the Federal Circuit applied the Supreme Court’s two-part test for determining whether federal courts have exclusive jurisdiction over a case pursuant to 28 U.S.C. § 1338(a). Quoting *Christianson v. Colt Industries Operating Corp.*, 486 U.S. 800, 809 (1988), the Supreme Court stated that § 1338 jurisdiction extends to any case “in which a well-pleaded complaint establishes either

“[W]here, as here, establishing patent infringement is a necessary element of a malpractice claim stemming from alleged mishandling of patent prosecution and earlier patent litigation, the issue is substantial and contested, and federal resolution of the issue was intended by Congress, there is ‘arising under’ jurisdiction under § 1338.”  
Slip op. at 16.

that federal patent law creates the cause of action or that the plaintiff's right to relief necessarily depends on resolution of a substantial question of federal patent law, in that patent law is a necessary element of one of the well-pleaded claims." Slip op. at 6. Because federal patent law did not create the cause of action, the Federal Circuit concluded that its analysis turned on whether patent law was a necessary element of AMT's malpractice claim as pleaded.

The Court concluded that patent law was a necessary element of AMT's claim. The Court noted that, under Texas state law, the elements of a malpractice claim are: (1) an attorney owed plaintiff a duty stemming from the attorney-client relationship; (2) the attorney breached that duty; (3) the breach approximately caused plaintiff's injuries; and (4) damages. Because AMT's legal malpractice claim arose from prior litigation, the Court concluded that AMT must satisfy the "case within a case" requirement of the proximate cause element of malpractice. *Id.* at 8 (citing *Ballesteros v. Jones*, 985 S.W.2d 485, 489 (Tex. App. 1998)). That is, AMT must establish that it would have prevailed in the prior litigation but for Akin Gump's negligence. The Court found that because the underlying suit was a patent infringement action against SCBA manufacturers, the district court would have to decide the merits of AMT's infringement claim. Thus, the Court concluded that patent infringement was a necessary element of AMT's malpractice claim that presented a substantial question of patent law, conferring § 1338 jurisdiction.

The Court also rejected Akin Gump's contention that there existed a theory upon which AMT could prevail that did not involve a substantial question of patent law. Specifically, Akin Gump contended that AMT's allegation that attorney error compromised the value of AMT's patents amounted to a novel theory of malpractice that did not require resolution of a substantial question of patent law. Viewing AMT's "impaired settlement value" theory as a damages theory rather than a malpractice liability theory, the Court concluded that it did not obviate the "case within a case" element of AMT's claim because, in addition to the computation of any damages, AMT must still prove patent infringement.

The Court also rejected Akin Gump's argument that two Supreme Court cases addressing jurisdiction pursuant to 28 U.S.C. § 1331 precluded federal

jurisdiction in these circumstances. Akin Gump first asserted that *Grable & Sons Metal Products, Inc. v. Darue Engineering & Manufacturing*, 545 U.S. 308, 314 (2005), restricted federal jurisdiction under § 1338 to only those cases where "a state-law claim necessarily raise[s] a stated federal issue, actually disputed and substantial, which a federal forum may entertain without disturbing any congressionally approved balance of federal and state judicial responsibilities." Slip op. at 13-14. The Federal Circuit found this test to be satisfied since the patent infringement issue was disputed and, because it was a necessary element of the malpractice case, it was substantial. Further, the Court concluded that there is a strong federal interest in adjudicating patent infringement claims in federal court because patents are issued by a federal agency. The Federal Circuit thus affirmed the district court's denial of defendant's motion to remand.

## Statute of Limitations Period for Malpractice Claim Started to Run When Patent Attorney Should Have Recognized Claim Drafting Error

*Amy J. Embert*

**Judges: Michel (author), Lourie, Rader**

**[Appealed from W.D. Tex., Judge Sparks]**

In *Immunocept, L.L.C. v. Fulbright & Jaworski, L.L.P.*, No. 06-1432 (Fed. Cir. Oct. 15, 2007), the Federal Circuit affirmed the district court's grant of SJ in favor of Fulbright & Jaworski, L.L.P. ("Fulbright"). In so doing, the Federal Circuit held that (i) a claim scope determination involved in a malpractice claim presented a substantial question of patent law and, thus, federal jurisdiction was proper under 28 U.S.C. § 1338; and (ii) Immunocept L.L.C.'s ("Immunocept") malpractice claim was barred by the statute of limitations.

The Fulbright law firm was hired to secure patent protection for large pore hemofiltration (LPHF) technology. U.S. Patent No. 5,571,418 ("the '418 patent"), entitled "Hemofiltration of toxic mediator-related disease," issued and was

assigned to Immunocept. Immunocept subsequently hired Thomas Felger at Baker Botts L.L.P. to prosecute additional patent applications directed to LPHF technology. In the course of this prosecution, Felger reviewed the '418 patent and its file history, and met with Immunocept to discuss the claims, among other things.

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“[B]ased on the blatantly restrictive transitional phrase and Felger’s review of the patent, file history, prior art, and claim scope, Felger should have reasonably known that ‘consisting of’ drastically narrowed the scope of the claims . . . , thereby starting the statute of limitations clock.” Slip op. at 10.

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Seeking financial partners to assist with the clinical trials and commercialization of its invention, Immunocept entered into preliminary investment negotiations with a subsidiary of Johnson and Johnson (“J&J”). During the course of due diligence, J&J’s patent attorneys discovered that the '418 patent suffered from a fatal flaw, namely, the transition phrase “consisting of” in claim 1. J&J’s patent attorneys did not think that the claimed invention would provide adequate protection from competing methods. Thus, J&J terminated discussions with Immunocept.

Alleging 28 U.S.C. § 1338 as its sole jurisdictional basis, Immunocept sued Fulbright for legal malpractice under Texas state law in the Western District of Texas. The district court granted SJ in favor of Fulbright on the grounds that the malpractice claim was barred by the statute of limitations and that damages were too speculative as a matter of law.

On appeal, the Federal Circuit first considered whether federal jurisdiction was proper. Citing *Christianson v. Colt Industries Operating Corp.*, 486 U.S. 800, 809 (1988), the Court explained that section 1338 jurisdiction extends to any case “in which a well-pleaded complaint establishes either that federal patent law creates the cause of action or that the plaintiff’s right to relief necessarily depends on resolution of a substantial question of federal

patent law, in that patent law is a necessary element of one of the well-pleaded claims.” Slip op. at 4-5. This two-part test was later rephrased by the Supreme Court in *Grable & Sons Metal Products, Inc. v. Darue Engineering & Manufacturing*, 545 U.S. 308, 314 (2005), as a determination of whether “a state-law claim necessarily raise[s] a stated federal issue, actually disputed and substantial, which a federal forum may entertain without disturbing any congressionally approved balance of federal and state judicial responsibilities.” Slip op. at 5 (alteration in original).

The Court noted that Immunocept’s malpractice claim was solely based on its allegation of a claim drafting mistake that provided inadequate patent protection. The Court thus found that the claim drafting error was a necessary element of the malpractice cause of action. The Court reasoned that “[b]ecause patent claim scope defines the scope of patent protection, . . . we surely consider claim scope to be a substantial question of patent law.” *Id.* at 7 (citation omitted). Moreover, the Court noted that claim scope determination is a legal question that can be complex and litigants would benefit from federal judges who are used to handling complicated claim construction doctrines. Additionally, the Court found that Congress’s intent to remove nonuniformity in the patent law, as evidenced by the Federal Courts Improvement Act of 1982, was further indicium that § 1338 jurisdiction was proper here.

The Court then turned to the district court’s determination that Immunocept’s malpractice action was barred by the two-year statute of limitations. The Court noted that the two-year period for the statute of limitations in Texas starts to run when a “client discovers or should have discovered through the exercise of reasonable care and diligence the facts establishing the elements of a cause of action.” *Id.* at 8 (citation omitted).

The Court rejected Immunocept’s argument that it was not on notice of the basis of its malpractice case until J&J pointed out flaws in the claim scope. The Court noted that Immunocept’s patent attorney expert testified that the transition “consisting of” drastically limits the scope of a patent, and that anyone would know of the restrictive language

simply by reading the claims on the face of the patent. Felger not only read the patent, the Court pointed out, he also analyzed the claim scope, reviewed the file history, and reviewed prior art references cited by the examiner to reject pending claims in the application that gave rise to the '418 patent.

The Court further rejected Immunocept's argument that Felger did not reasonably know about the malpractice claim because it hired him to secure additional patents on the LPHF technology, not to investigate the malpractice claim. The Court reasoned that "[t]he relevant inquiry is not whether Felger was hired to investigate malpractice, but whether he knew or should have known facts later establishing a malpractice claim . . ." *Id.* at 9. The Court concluded that, "based on the blatantly restrictive transitional phrase and Felger's review of the patent, file history, prior art, and claim scope, Felger should have reasonably known that 'consisting of' drastically narrowed the scope of the claims . . . , thereby starting the statute of limitations clock." *Id.* at 10.

Lastly, the Federal Circuit rejected Immunocept's argument that Felger's knowledge could not be imputed to it because Felger did not have a duty to communicate his knowledge of a malpractice claim to Immunocept. The Federal Circuit explained that the imputation analysis involves determining whether an attorney was acting within the scope of his authority or employment when he discovered or reasonably should have discovered the critical information. "Noticeably absent from the imputation rule," the Court noted, "is a requirement that the attorney have a duty to disclose information to the client." *Id.* at 10. Moreover, the Court found that Immunocept waived the duty to communicate argument because it was not argued below.

The Court further held that Felger, as a patent attorney, clearly acted within the scope of his authority when he reasonably should have discovered the facts about the narrowed claim scope. The Federal Circuit thus affirmed the district court's holding that Immunocept's malpractice claim was barred by the statute of limitations.

## Holder of an Exclusive Field of Use License Subject to a Territorial Restriction Lacked Standing to Sue Without Joining Patent Owner

*Gabriel K. Azar*

**Judges: Rader (author), Friedman (filing an opinion dubitante), Moore**

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

In *International Gamco, Inc. v. Multimedia Games, Inc.*, No. 07-1034 (Fed. Cir. Oct. 15, 2007), the Federal Circuit reversed the district court's denial of defendant Multimedia Games, Inc.'s ("Multimedia") motion to dismiss for lack of standing. The Court held that International Gamco, Inc. ("Gamco"), the holder of an "exclusive enterprise license" (an amalgam of an exclusive territorial license and an exclusive field of use license), did not have standing to sue in its own name without joining the patent owner as a party.

U.S. Patent No. 5,324,035 ("the '035 patent") claims a multiplayer gaming system network. Gamco assigned the '035 patent to International Game Technology ("IGT"), but reserved for itself the exclusive right within the "Territory," to make, use, sell, offer to sell, and sublicense game system networks covered by the '035 patent. The assignment agreement defined "Territory" as "the lawful operation of lottery games authorized by the New York State Lottery in the State of New York." Slip op. at 4.

On the basis of that license, Gamco sued Multimedia, the New York State Lottery's ("NYSL") sole contractor for lottery games, for infringement of the '035 patent.

Multimedia moved to dismiss for lack of standing. The district court concluded that Gamco had standing to file suit in its own name only without joining the patent owner as a party. Recognizing the issue as one of first impression, however, it certified the following question to the Federal Circuit for interlocutory review: "whether an exclusive patent license, with

**"The problem of multiplicity of lawsuits arising from an exclusive field of use license is not cured by adding a geographic restriction."  
Slip op. at 10.**

exclusive right of enforcement, restricted to the activities of a specific enterprise within a specific geographic territory, is sufficient to confer standing on the exclusive licensee to bring a patent infringement action in its own name only.” *Id.*

On appeal, the Federal Circuit began by explaining that “[a]n exclusive licensee has standing to sue in its own name, without joining the patent holder, where ‘all substantial rights’ in the patent are transferred.” *Id.* at 5 (citation omitted). The Court then noted that it was settled that exclusive territorial licensees need not join the licensor to maintain a suit for patent infringement. The Federal Circuit explained, however, that neither it nor the Supreme Court had unequivocally determined whether an exclusive field of use license confers standing to sue without joining the patentee. Because Gamco’s license specifies a field of use (the operations of the NYSL), the Federal Circuit determined that it must resolve the issue.

The Court found guidance in *Pope Manufacturing Co. v. Jeffery Manufacturing Co.*, 144 U.S. 248 (1892), in which the Supreme Court held that the licensee of a single claim covering a single embodiment of a patented invention did not have standing to sue in his own name. The Federal Circuit explained that the Supreme Court refused to grant standing to the holder of less than the entire patent because doing so would create the potential for multiple litigations against any one defendant.

The Court reasoned that an exclusive field of use license creates the same multiplicity danger as the single-claim license of *Pope* because it also divides the scope of a patent by its subject matter. The Court added that this potential for multiple liability for a single infringing act underpins its prudential standing requirement, which compels an exclusive licensee with less than all substantial rights to join the patentee before initiating suit. The Court then contrasted an exclusive territorial license, noting that unlike a license that divides the patent by subject matter, an exclusive territorial license does not present the same multiplicity risk because a single act of infringement would give rise to only one viable suit for infringement by the exclusive territorial licensee in the jurisdiction where the infringement occurred.

Applying these principles to the current case, the Court determined that Gamco’s license included both geographic (the NYSL-authorized sites) and field of use (“lottery games”) restrictions. The

Court concluded that a single infringing game system at an NYSL-authorized site might subject the infringer to suit by Gamco for the lottery games, and separately by IGT or some other game-specific licensee for other nonlottery games such as blackjack or keno. Because of this multiplicity problem, and applying the logic of *Pope*, the Court therefore held that Gamco lacked standing to sue in its own name without joining IGT, and reversed the district court’s denial of Multimedia’s motion to dismiss Gamco’s complaint.

In a rarely issued “dubitante” opinion, Senior Judge Friedman wrote that he was unconvinced that the district court erred in permitting Gamco to sue without joining its licensor. Judge Friedman noted that the statute governing patent assignments, 35 U.S.C. § 261, contains parallel sentences that seem to treat geographical and field of use assignments the same. Specifically, section 261 states that “patents, or any interests therein, shall be assignable” by a written instrument and that patentee or his assignee “may in like manner grant an exclusive right under his . . . patents to the whole or any specified part of the United States.” Judge Friedman concluded that, under this language, “it seems unlikely that Congress intended only the latter (geographical), but not the former (‘any interest’ in a patent) assignees to be able to sue in their own names.” Friedman *dub. op.* at 2.

## Sua Sponte Award of Ongoing Royalty Remanded for Reevaluation of Royalty Rate

*C. Brandon Rash*

**Judges: Lourie, Rader (concurring), Prost (author)**

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

In *Paice LLC v. Toyota Motor Corp.*, Nos. 06-1610, -1631 (Fed. Cir. Oct. 18, 2007), the Federal Circuit affirmed the district court’s denial of the parties’ motions for JMOL regarding infringement and noninfringement, vacated the district court’s sua sponte award of an ongoing royalty for future infringement, and remanded for the district court to reevaluate the ongoing royalty rate.

Plaintiff Paice LLC (“Paice”) sued Defendants Toyota Motor Corporation, Toyota Motor North

America, Inc., and Toyota Motor Sales, U.S.A., Inc. (collectively “Toyota”), alleging infringement of U.S. Patent Nos. 5,343,970 (“the ’970 patent”), 6,209,672 (“the ’672 patent”), and 6,554,088 (“the ’088 patent”). These patents relate to drive trains (or “transaxle units”) for hybrid electric vehicles. More specifically, they disclose a system of combining and controlling the torque supplied by an internal combustion engine (“ICE”) and an electric motor. The ’970 patent describes a microprocessor-based system to control the torque inputs, whereas the ’672 and ’088 patents describe a control system that uses a clutch. Of importance to the appeal, the ’970 patent recites a “controllable torque transfer unit” (“CTTU”), which the district court defined as “a multi-input device or component that is controlled to transfer variable amounts of torque.”

In 2003, Toyota began marketing a hybrid electric vehicle, known as the “Prius II,” which has a drive train that combines the torque from an ICE with the torque from an electric motor. Like the one described by the ’970 patent, the Prius II drive train uses a microprocessor-based system to control the amount of torque provided by the ICE and the electric motor. After a trial, the jury found that the Prius II drive train lacks either a CTTU recited in the claims of the ’970 patent or a clutch recited by the claims of the ’672 and ’088 patents, and thus did not literally infringe those patents. But the jury found that the Prius II drive train infringes claims 11 and 39 of the ’970 patent under the DOE and awarded \$4,269,950 to Paice as a reasonable royalty.

Toyota and Paice filed cross-motions for JMOL asking the district court to overturn the jury’s findings on infringement and noninfringement, respectively. Paice also requested a permanent injunction. The district court denied the motions. Instead of a permanent injunction, the district court imposed an “ongoing royalty” of \$25 per vehicle, the same amount awarded by the jury for past infringement. The parties appealed the denial of their motions on infringement. Paice also appealed the “ongoing royalty.”

As for Toyota’s appeal, the Federal Circuit found sufficient evidence to support a finding of infringement under the DOE. Toyota argued that the testimony from Paice’s expert witness was insufficient because the vast majority of that testimony was directed towards literal infringement. The Court rejected that argument, finding that the

bulk of the expert’s testimony was not limited to literal infringement. In that regard, the Court noted that the expert gave a substantial amount of testimony—occupying over seventy pages of transcript—concerning the technology disclosed in the patents and the inner workings of the accused vehicles’ transaxle units before discussing the topic of infringement. Moreover, the Court found that the expert’s extensive testimony on literal infringement was implicitly incorporated into his more limited DOE analysis, thus satisfying the “particularized testimony” requirement. The Court also found a sufficient “linking argument” based in part on the substantial cross-examination of Paice’s expert by counsel for Toyota on the portion of Toyota’s drive train that corresponds to the CTTU.

Next, Toyota asserted that the written description of the ’970 patent criticizes the drive train design in two prior art patents, U.S. Patent Nos. 3,566,717 and 3,732,751 (“the Berman/TRW patents”), because the design required a user to manually switch between operating modes and was difficult to manufacture economically. Because Toyota’s drive train was allegedly based on the Berman/TRW patents, Toyota argued that Paice’s criticism of the ’970 patent prevented Paice from capturing Toyota’s design under the DOE. The Federal Circuit disagreed. Paice’s primary criticism regarding manual operation was overcome using a microprocessor-based system, which Toyota also used. And Paice’s criticism regarding manufacturability was “secondary and equivocal at best.” *Id.* at 26.

Thus, the Court distinguished this case from *SciMed Life Systems, Inc. v. Advanced Cardiovascular Systems, Inc.*, 242 F.3d 1337 (Fed. Cir. 2001), “where the patentee selected one configuration for ‘all embodiments’ of the invention to the exclusion of the only other known configuration.” Slip op. at 26. Nor did the Court find this case to be like *Gaus v. Conair Corp.*, 363 F.3d 1284 (Fed. Cir. 2004), and *Dawn Equipment Co. v. Kentucky Farms Inc.*, 140 F.3d 1009 (Fed. Cir. 1998), “where the patentee touted the invention’s improvements over the very same subject matter sought to be recaptured under the doctrine of equivalents.” Slip op. at 26.

Finally, Toyota urged a reversal based upon opening statements made by counsel for Paice expressing the view that “Toyota can cut off damages tomorrow . . . [b]y going back to the Prius I,” which Toyota contended was a binding judicial admission

of noninfringement by the Prius I design. Toyota argued that the Prius I and the Prius II share the same structural configuration relevant to infringement, and thus Paice's admission implied that the Prius II also does not infringe. The district court agreed that counsel's statement was a binding admission, but disagreed that the structural configurations of the accused vehicles were the same as the Prius I for purposes of determining infringement. The Federal Circuit found that, in effect, the district court treated the statement as an evidential admission—as opposed to a conclusive admission—and allowed the jury to weigh it against the other evidence presented at trial. The Federal Circuit found the decision to be well within the district court's discretion and affirmed the denial of Toyota's JMOL motion.

As for Paice's appeal, the Federal Circuit first addressed the jury's finding of no literal infringement. The Court cited expert testimony on the lack of a single "multi-input device or component" that would constitute a CTTU in Toyota's design as sufficient support for a finding of no literal infringement of the '970 patent. For the '672 and '088 patents, the Federal Circuit again concluded that expert testimony provided substantial evidence that the accused devices lacked the claimed "clutch." The Federal Circuit specifically noted that Toyota's expert testified that a combination of devices transferred torque in Toyota's accused design, whereas the district court's construction of "clutch" literally required "a device, not a number of devices" to act as the clutch.

Next, the Federal Circuit considered the district court's ongoing royalty order "allow[ing] Toyota to continue using the invention of the '970 patent at a cost of \$25 per accused vehicle." Paice argued that the district court lacked the statutory authority to grant such an award, and even if such authority existed, the district court denied Paice its right to a jury trial under the Seventh Amendment to determine the amount of the ongoing royalty rate.

The Federal Circuit began by analyzing the language of 35 U.S.C. § 283, providing courts the authority to "grant injunctions . . . to prevent the violation of any right secured by patent, on such terms as the court deems reasonable." The Court noted that the "difficult question raised by this case . . . is whether an order permitting use of a patented invention in exchange for a royalty is properly characterized as preventing the violation of the

rights secured by the patent." *Id.* at 34. Citing *Shatterproof Glass Corp. v. Libbey-Owens Ford Co.*, 758 F.2d 613, 628 (Fed. Cir. 1985), the Federal Circuit concluded that "[u]nder some circumstances, awarding an ongoing royalty for patent infringement in lieu of an injunction may be appropriate." Slip op. at 34. The Court noted, however, that "awarding an ongoing royalty where 'necessary' to effectuate a remedy . . . does not justify the provision of such relief as a matter of course whenever a permanent injunction is not imposed." *Id.* at 35.

The Court instructed that "[i]n most cases, where the district court determines that a permanent injunction is not warranted, the district court may wish to allow the parties to negotiate a license amongst themselves regarding future use of a patented invention before imposing an ongoing royalty." *Id.* "Should the parties fail to come to an agreement," the Court stated, "the district court should step in to assess a reasonable royalty in light of the ongoing infringement." *Id.*

In this case, the Federal Circuit noted that the district court, after applying the four-factor test for a permanent injunction and declining to issue one, sua sponte imposed an ongoing royalty. But the Federal Circuit concluded that the district court provided no reasoning for its decision to grant a \$25 ongoing royalty rate. Because the Federal Circuit was "unable to determine whether the district court abused its discretion," it remanded the case for "the limited purpose of having the district court reevaluate the ongoing royalty rate." *Id.*

The Federal Circuit further instructed that, on remand, the district court "may take additional evidence if necessary to account for any additional economic factors arising out of the imposition of an ongoing royalty." *Id.* Furthermore, the district court "should also take the opportunity on remand to consider the concerns Paice raises about the terms of Toyota's permissive continuing use." *Id.* at 36.

Finally, the Court considered and rejected Paice's argument that the Seventh Amendment entitled it to a jury trial to determine damages. The Court noted that while Paice's argument may be true as a general matter, "not all monetary relief is properly characterized as 'damages,'" *id.* at 37, citing as an example the equitable remedy of an award requiring an account of profits. Because "the fact that

monetary relief is at issue in this case does not, standing alone, warrant a jury trial,” the Court found that Paice’s argument “falls far short of demonstrating that there was any Seventh Amendment violation in the proceedings below.” *Id.*

Judge Rader wrote separately in a concurring opinion and stated that the Federal Circuit “should do more than suggest that ‘the district court may wish to allow the parties to negotiate a license amongst themselves.’” Rader Concurrence at 1. Instead, “this court should *require* the district court to remand this issue to the parties, or to obtain the permission of both parties before setting the ongoing royalty rate itself.” *Id.*

Judge Rader wrote that the parties should be given a formal opportunity to set the terms of the royalty. He noted that evidence and argument on royalty rates were, of course, presented during the course of the trial for the purposes of assessing damages for Toyota’s past infringement. Judge Rader observed, however, that presuit and postjudgment acts of infringement are distinct and may warrant different royalty rates, given the change in the parties’ legal relationship and other factors. Moreover, as licenses are driven largely by business objectives, the parties to a license are better situated than the courts to arrive at fair and efficient terms. Accordingly, Judge Rader would allow the district court to impose a reasonable royalty only after the parties gave the court their permission or after the parties failed to reach an agreement on their own when given the opportunity.

## California’s Waiver of Sovereign Immunity in First Case Did Not Waive State’s Immunity in Later Suit

*Anthony D. Del Monaco*

**Judges: Rader, Gajarsa, O’Malley (author, District Judge sitting by designation)**

**[Appealed from N.D. Cal., Judge Patel]**

In *Biomedical Patent Management Corp. v. California*, No. 06-1515 (Fed. Cir. Oct. 23, 2007), the Federal Circuit affirmed the district court’s grant of a motion to dismiss in favor of the state of

California, Department of Health Services (“DHS”), on the ground that DHS was entitled to sovereign immunity under the Eleventh Amendment. The Court held that DHS’s waiver of sovereign immunity in an earlier case did not prevent DHS from asserting immunity in the present case.

Biomedical Patent Management Corporation (“BPMC”) is the owner of U.S. Patent No. 4,874,693 (“the ’693 patent”), which is directed to a method for screening birth defects in pregnant women. In 1997, a subcontractor of DHS filed a DJ action against BPMC claiming that a DHS screening program did not infringe the ’693 patent and that the patent was invalid (“the 1997 lawsuit”). DHS moved to intervene and also sought a declaration of noninfringement and invalidity of the ’693 patent. The district court granted DHS’s motion to intervene. Thereafter, BPMC filed a motion to dismiss the action for improper venue, which the district court granted. In 2006, BPMC filed the present lawsuit against DHS. The district court granted DHS’s motion to dismiss the case on the ground that sovereign immunity barred BPMC’s claims. BPMC appealed.

The Federal Circuit began by noting that BMC did not dispute that DHS, as an arm of the state of California, generally is accorded Eleventh Amendment immunity. The Court explained, however, that by intervening and asserting claims against BPMC in the 1997

lawsuit, DHS voluntarily invoked the district court’s jurisdiction and, thus, waived its sovereign immunity for the purposes of that lawsuit. The question to be resolved in this case, the Court noted, is when, if ever, a waiver of immunity in an earlier lawsuit prevents a state from asserting sovereign immunity in a later lawsuit between the same parties.

BPMC argued that DHS’s waiver in the 1997 lawsuit carried over to the present lawsuit because the two actions involved the same subject matter and the same parties. The Federal Circuit disagreed, rejecting BPMC’s reliance on a number of cases that held that a state’s voluntary waiver of sovereign immunity in an early phase of a

“Indeed, two relevant principles we can extract from these cases are that a State’s waiver of immunity generally does *not* extend to a separate or re-filed suit, and that . . . even a waiver by litigation conduct must nonetheless be ‘clear.’” Slip op. at 19.

proceeding extended to a later phase of the same proceeding. The Federal Circuit explained that “BPMC misses one critical point that runs through almost all of the case law on which it relies: the waivers found in the cases cited by BPMC were based on actions by a State in the *same* case, not in cases that are either separated by a dismissal or cases that are entirely different actions.” Slip op. at 11.

“In contrast,” the Court stated, “where a waiver of immunity occurs in an earlier action that is dismissed, or an entirely separate action, courts, including our own, have held that the waiver does not extend to the separate lawsuit.” *Id.* at 17.

The Court clarified, however, that it did not “mean to draw a bright-line rule whereby a State’s waiver of sovereign immunity can never extend to a re-filed or separate lawsuit.” *Id.* at 19. Instead, “a State’s waiver of immunity generally does *not* extend to a separate or re-filed suit, and . . . even a waiver by litigation conduct must nonetheless be ‘clear.’” *Id.* (citing *Tegic Commc’ns Corp. v. Bd. of Regents of the Univ. of Tex. Sys.*, 458 F.3d 1335, 1340 (Fed. Cir. 2006)). The Federal Circuit further noted that the rule governing waiver of immunity by litigation conduct rests on the need to avoid “unfairness” and “inconsistency,” as well as to prevent a state from selectively using immunity to achieve a litigation advantage. Slip op. at 19 (citing *Lapides v. Bd. of Regents of Univ. Sys. of Ga.*, 535 U.S. 613, 619 (2002)). The Court concluded “that any unfairness or inconsistency that would arise from permitting DHS to assert sovereign immunity in the present case is not so substantial as to cause us to diverge from the general principles . . . that a waiver generally does not extend to a separate lawsuit, and that any waiver . . . must be ‘clear.’” *Id.* at 21.

BPMC next argued that DHS should be judicially estopped from asserting sovereign immunity because DHS’s position was inconsistent with its position in the 1997 lawsuit, where it asserted that it was a party over which the district court had jurisdiction in its motion to intervene. The Federal Circuit rejected this argument, finding that DHS was not judicially estopped from asserting a new position that resulted from a change in the law brought about by the Supreme Court’s decision in *Florida Prepaid Postsecondary Education Expense Board v. College Savings Bank*, 527 U.S. 627 (1999). The Federal Circuit reasoned that only after

the *Florida Prepaid* decision did it become clear that DHS could assert a sovereign immunity defense in a suit for patent infringement. The Federal Circuit thus held that although DHS’s positions were inconsistent, the inconsistency was excused by the intervening change in the law.

BPMC also argued that the conduct of the state of California in the patent system, and in particular patent litigation, operated as a general waiver for all California state defendants participating in patent suits. The Federal Circuit dismissed this argument, noting that the Supreme Court in *Florida Prepaid* expressly overruled the notion that a state could constructively waive its Eleventh Amendment immunity by its participation in a regulatory scheme.

Lastly, BPMC argued that a recent Supreme Court decision, *Cent. Va. Cmty. Coll. v. Katz*, 546 U.S. 356 (2006), implicitly overruled *Florida Prepaid* such that sovereign immunity is no longer available in patent infringement actions. The Federal Circuit again rejected BPMC’s argument, concluding that the holding in *Katz* was so closely tied to the history of the Bankruptcy Clause and the unique aspects of bankruptcy jurisdiction that it could not be read to extend to actions for patent infringement. The Federal Circuit thus held that DHS was not precluded from asserting sovereign immunity in this case, and affirmed the decision of the district court.

## Specification and Expert Testimony Supported Construction of “Mean Grain Diameter” to Require Calculation Based on Numbers of Particles, Not Volume

*Ningling Wang*

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

**[Appealed from the ITC]**

In *Osram GmbH v. International Trade Commission*, No. 06-1282 (Fed. Cir. Oct. 31, 2007), the Federal Circuit reversed the ITC’s decision of noninfringement because of an incorrect claim construction, and remanded for further proceedings.

“When there is more than one method of measurement and the patent does not explicitly discuss the methods, persons experienced in the field are reasonably deemed to select the method that better measures the parameters relevant to the invention.” Slip op. at 9.

Osram GmbH and Osram Opto Semiconductors GmbH (collectively “OSRAM”) requested the ITC initiate an investigation, alleging that Dominant Semiconductors Sdn. Bhd. (“Dominant”) violated section 337 by importing and selling compositions that infringe at least one claim of OSRAM’s five U.S. patents (collectively “the Particle Size Patents”). The Particle Size Patents are directed to wavelength-converting compositions comprising luminous phosphor particles that convert the emitted light of light-emitting diodes (LEDs) to a different wavelength in order to produce the desired white light. The key issue on appeal turned on the construction of the claim limitation, “mean grain [i.e., particle] diameter  $d_{50} \leq 5 \mu\text{m}$ .”

The ITC deemed it unclear whether the claimed “mean grain diameter” should be measured as the average diameter based on the number of grains or the average diameter based on the volume of grains, because the patent specifications did not indicate how the mean grain diameter is determined. Nevertheless, the ITC selected the volume-based average based on two technical treatises and evidence that it is common for phosphor manufacturers to report phosphor size for sale to customers by volume. After remanding to the ALJ, the ALJ then found that Dominant’s “Fine Series LED” phosphors fell within the scope of the claims and infringed, whereas Dominant’s “Normal Series LED” phosphors did not. Further, the ALJ determined that OSRAM’s own products fell outside the claim limitation when measured by the volume-based method; therefore, OSRAM did not meet the “technical prong” of the domestic industry requirement under section 337. Accordingly, the ALJ held that the imported products did not violate section 337. The ITC affirmed and OSRAM appealed.

The Federal Circuit reversed, concluding that the ITC erred in construing “mean grain diameter” as the volumetric mean, rather than the number-based

mean. The Court noted that “[t]he experts for both sides were in full and emphatic agreement that the ordinary meaning of the average diameter of these particles is the number-based average—until Dominant’s expert later changed his position” when it became apparent that this issue could determine liability. Slip op. at 7. The Court also found that the patent specifications were “in accordance with a number-based mean, for the invention stresses the homogeneity of size, not volume, of the phosphor particles.” *Id.* at 8. And the Court noted that it was not disputed that homogeneity of size is better reflected in a number-based average than a volume-based average.

The Court further reasoned that “[w]hen there is more than one method of measurement and the patent does not explicitly discuss the methods, persons experienced in the field are reasonably deemed to select the method that better measures the parameters relevant to the invention.” *Id.* at 9. Under this framework, the Court concluded that “[a]ll of the experts agreed that the volume-based measure [was] more sensitive to large particles, which do not function in the invention, and that the number-based measure was more sensitive to the size and distribution of the particles that perform the inventive function.” *Id.* at 9-10.

The Federal Circuit thus concluded that the ITC “erred in construing the claims as requiring the volume-based method, contrary to the ordinary meaning of the term as reflected in the specification and the testimony, and at odds with the purposes of the invention.” *Id.* at 10. The Court stated that its conclusion was reinforced by the undisputed fact that the volume-based measure would exclude the OSRAM products that the patents were designed to cover.

Judge Dyk dissented and explained that the number-based method and the volume-based method are used in the industry for different purposes: the number-based method is used for research and development purposes while the volume-based method is used commercially in the sale of phosphor powders. Judge Dyk agreed with the ITC’s claim construction that “mean grain diameter” was a volume-based average, because, in his view, the patent specifications “make it quite clear that a commercial invention is being described.” Dyk Dissent at 3.

# Abbreviations | Acronyms

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

## Looking Ahead

- On November 26, 2007, the Federal Circuit granted a petition for rehearing en banc to determine whether a panel correctly held that a point of novelty asserted by a design patent owner on a combination of known elements must reflect a “non-trivial advance” over the prior art in order to support an infringement claim. *Egyptian Goddess, Inc. v. Swisa, Inc.*, No. 06-1562 (Fed. Cir. Nov. 26, 2007). The Order granting rehearing instructed the parties to address numerous questions, including, among other things, whether there should be a “point of novelty” for infringement of a design patent, whether there should be a nontrivial advance test, and whether claim construction should apply to design patents.
- At an oral argument on December 5, 2007, in *In re Ferguson*, No. 07-1232 (Fed. Cir. Dec. 5, 2007), the Federal Circuit again considered whether business method patent claims qualified as patentable subject matter under 35 U.S.C. § 101 for claims directed to a method of marketing software. The applicant argued that his claims were well within the scope of subject matter approved by the Federal Circuit’s *State Street* decision. The PTO, however, argued that the claims were properly rejected as directed to “abstract ideas.”

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## Last Month at the Federal Circuit



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